AHEAD OF THE CURVE: AN ECONOMIC UPDATE AND WHAT IT MEANS FOR YOUR CREDIT UNION

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Presented by:

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SESSION'S TOPICS

- Federal Open Market Committee
- Inflation…will it ever return to normal?
- Employment…Hot, cold or indifferent?
- 1st Quarter GDP Update
- Interest rates…where are they headed?

But First a Word on AI!

Since the industrial era, every major wave of technological disruption has triggered warnings of mass unemployment. Yet the U.S. jobless rate today sits at nearly the same level it did in the 1950s — a track record that has repeatedly defied the doomsayers.

The lesson isn't that disruption is painless; it's that economies bend without breaking.

THE FEDERAL OPEN MARKET COMMITTEE (FOMC) :

FOMC’s Dule Mandate

1

Promote Maximum Employment

Unemployment Rate

2

Promote Stable Prices

Inflation Rate

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FOMC's Toolbox

1

Federal Funds Rate

Currently at 3.50% – 3.75%

2

Balance Sheet Changes

Currently $6.7 Trillion

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FOMC’s Playbook

<u>Overall Premise</u>: Lower Interest Rates stimulate the economy by making it cheaper for consumers and businesses to borrow money to fund purchases. The opposite is also true, higher rates hinder economic growth.

However…
It’s a balancing act, too much stimulus causes too much inflation…causes a pullback in spending…

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FOMC ACTIONS IN 2025-2026

2025 Fed Actions

Meeting Date	Fed Funds	Balance Sheet	Dissenting Votes
January 28-29	No change 4.25% – 4.5%	Continue to reduce	None
March 18-19	No change	Continue to reduce …but slow the pace in April	1 - Waller
May 6-7	No change	Continue to reduce	None
June 17-18	No change	Continue to reduce	None
July 29-30	No change	Continue to reduce	2-Waller, Bowman
September 16-17	Lowered 25bps 4% - 4.25%	Continue to reduce	1-Miran
October 16-17	Lowered 25bps 3.75% - 4.00%	Stopped reduction on Dec 1	2-Miran, Schmid
December 9-10	Lowered 25bps 3.50% - 3.75%		3- Miran, Goolsbee, Schmid

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2026 Fed Actions

Meeting Date	Fed Funds	Balance Sheet	Dissenting Votes
January 27-28	No change 3.50% - 3.75%	Maintain	2-Miran, Waller
March 17-18*	No change	Maintain	1 - Miran
April 28-29	No change	Maintain	4 – Miran, Hammack, Kashkari, Logan
June 16-17*			
July 28-29			
September 15-16*			
October 27-28			
December 8-9*			

4/29/26 FOMC statement

"Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, on average, and the unemployment rate has been little changed in recent months. Inflation is elevated, in part reflecting the recent increase in global energy prices."

- Maintained the Fed Funds rate at 3.5% to 3.75%
- 4 members voted against decision:
  - Stephen I. Miran wanted a 0.25% decline.
  - Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, *who supported maintaining the target range for the federal funds rate* but did not support inclusion of an easing bias in the statement at this time.

Neel Kashkari's Dissent

I dissented against the FOMC's action because I did not think it was appropriate to continue to include the following phrase in the policy statement: "*In considering the extent and timing of additional adjustments to the target range for the federal funds rate . . .*"

While that phrase is not a commitment to make further cuts to the policy rate, it is widely interpreted by Fed watchers to indicate the Committee's expectation that the next adjustment to the federal funds rate would be a cut. . . Instead, the FOMC should offer a policy outlook that signals that the next rate change could be either a cut or a hike, depending on how the economy evolves. Forward guidance is itself an instrument of monetary policy: It can influence financial conditions today, potentially slowing or hastening the achievement of our dual mandate goals.

Logan's Dissent

This language evolved out of the series of three rate cuts the FOMC made last fall. In that context, "additional adjustments" implies the next rate change, whenever it occurs, will most likely (though not certainly) reduce the target range again. I disagree with that assessment of the policy outlook.

…To forecast where headline inflation is headed, I look to measures of inflation that strip out extreme price changes or categories where prices are more volatile. Even before recent increases in the prices of energy and other commodities, those measures had been running meaningfully above 2 percent, leaving doubts about how long it will take inflation to return to target.

In light of the two-sided risks to monetary policy, I believed the FOMC should not give forward guidance implying a bias toward rate cuts at this time.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2026

FOMC SUMMARY OF ECONOMIC PROJECTION

Percent

Variable	Median[1]				Range[3]			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.1–2.7	2.0–2.7	1.8–2.7	1.7–2.5
December projection	2.3	2.0	1.9	1.8	2.0–2.6	1.8–2.6	1.7–2.6	1.7–2.5
Unemployment rate	4.4	4.3	4.2	4.2	4.3–4.6	4.0–4.5	4.0–4.5	3.8–4.5
December projection	4.4	4.2	4.2	4.2	4.2–4.6	4.0–4.5	4.0–4.5	3.8–4.5
PCE inflation	2.7	2.2	2.0	2.0	2.3–3.3	1.8–2.4	1.9–2.2	2.0
December projection	2.4	2.1	2.0	2.0	2.2–2.7	2.0–2.3	2.0	2.0
Core PCE inflation[4]	2.7	2.2	2.0		2.2–3.0	2.0–2.5	2.0–2.2	
December projection	2.5	2.1	2.0		2.2–2.7	2.0–2.5	2.0	
Memo: Projected appropriate policy path								
Federal funds rate	3.4	3.1	3.1	3.1	2.6–3.6	2.4–3.9	2.6–3.9	2.6–3.9
December projection	3.4	3.1	3.1	3.0	2.1–3.9	2.4–3.9	2.6–3.9	2.6–3.9

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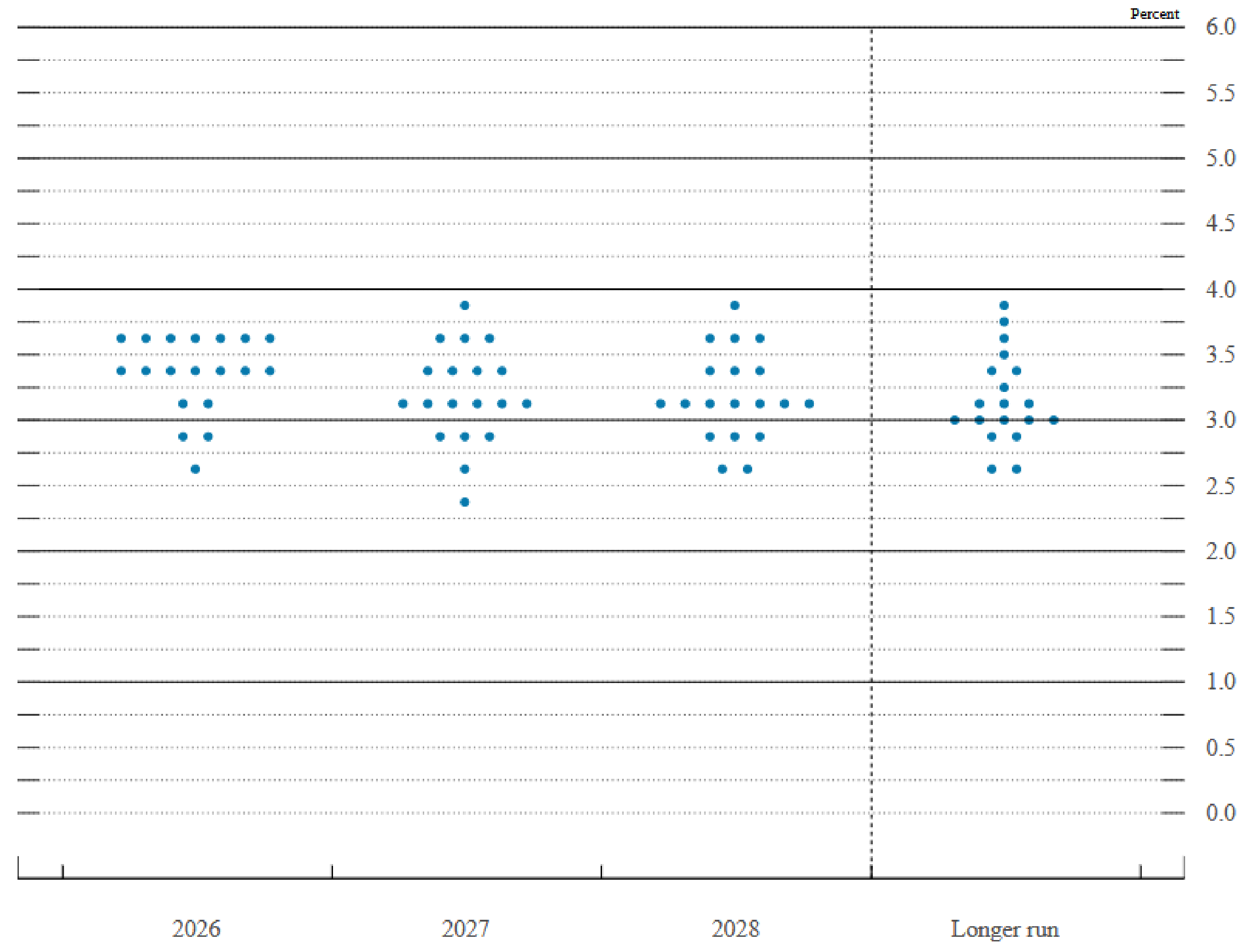
FOMC Federal Funds Rate Dot Plot – March 2026

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



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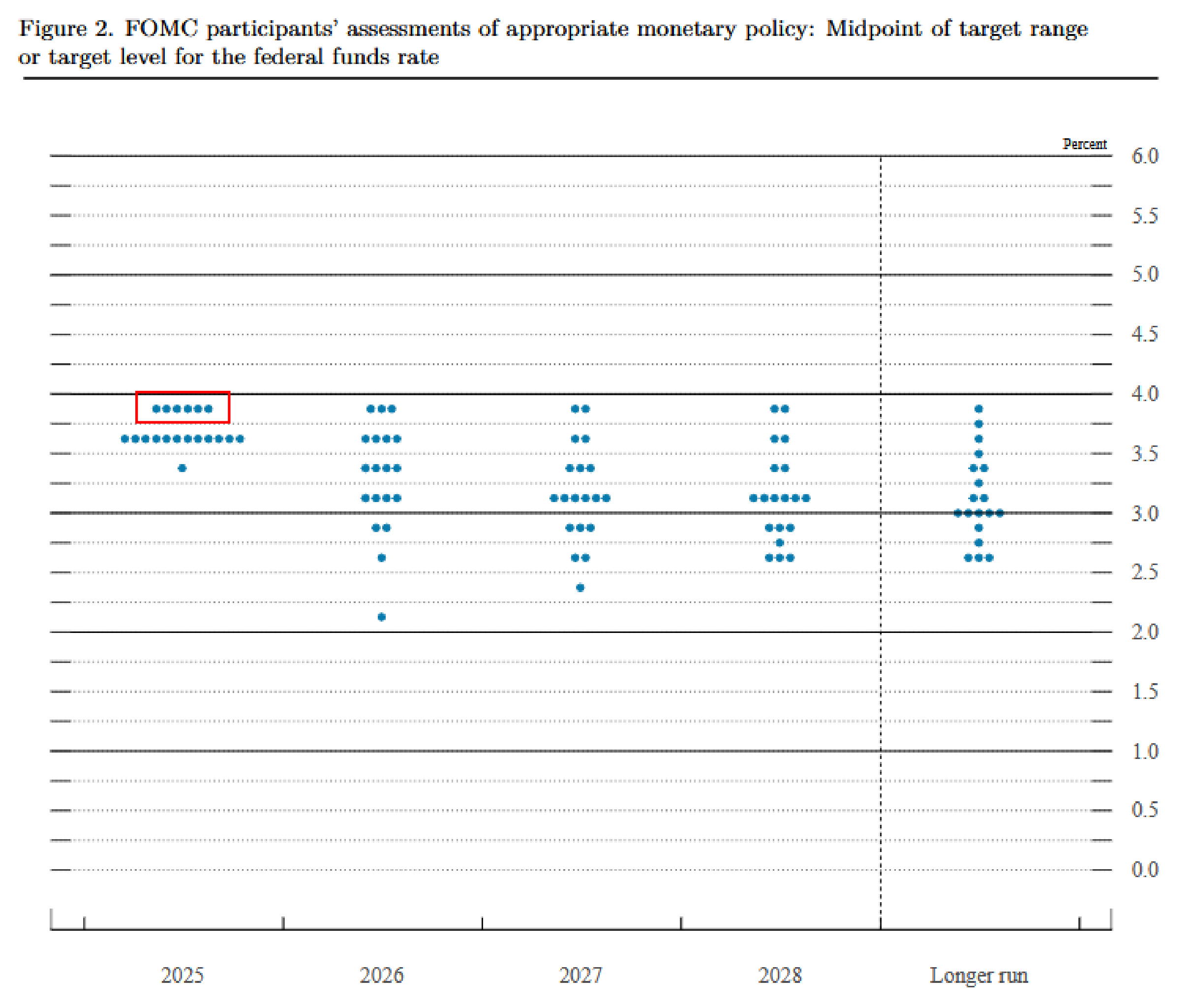
FOMC Federal Funds Rate Dot Plot – December 2025 – 4 Soft Dissents



Fed Actions:

- Reduced the Fed Funds rate by 25 bps to 3.50% to 3.75%
- 3 members voted against decision:
  - Stephen I. Miran wanted a 0.50% decline.
  - Austan D. Goolsbee and Jeffrey R. Schmid, who preferred no change

Warsh Swon In and Told to "…do your own thing.…"

"Honestly, I really mean this. This is not said in any other way: I want Kevin to be totally independent."-President Donald Trump

"Don't look at me, don't look at anybody. Just do your own thing." -President Donald Trump

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POLICY LEANINGS

▲ Inflation Hawk

Tighter inflation discipline is his top priority. Committed to holding rates until inflation returns sustainably to the 2% target, regardless of political pressure.

⚖ Fed Independence

Publicly pledged to resist White House pressure on rate decisions. His promise of independence was described as 'crucial' even by those who voted against him.

◉ Leaner, Quieter Fed

Wants the Fed to 'talk less' and narrow its focus. Favors streamlined communication and a more disciplined institution vs. Powell's broader engagement.

◈ Market-Savvy

Deep Wall Street background at Morgan Stanley plus time as a 2008 crisis responder. Understands real-world market implications of policy in ways few Fed chairs have.

◇ AI & Productivity

Believes AI advances will boost productivity and push down inflation longer-term, potentially creating room to cut rates — though near-term inflation complicates this view.

◎ New Framework

Believes the post-pandemic economy requires a different inflation assessment framework. Publicly stated the Fed needs updated models to reflect structural economic shifts.

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New Fed Chair Kevin Warsh

Independence vs. White House Pressure

WHITE HOUSE

→ Trump has repeatedly pushed for rapid rate cuts

→ Expects Warsh to 'prioritize economic growth'

→ Producer prices rose 6% in April 2026

→ White House swearing-in signals close relationship

→ Tariff-driven inflation complicates the picture

VS

FED INDEPENDENCE

→ Warsh pledged not to set policy under political pressure

→ CPI at 3.8% YoY (April 2026) — above 2% target

→ Only 1 of 12 FOMC votes; cannot act unilaterally

→ Markets watching closely for first June 16–17 meeting

→ Past Biden era: Warsh opposed premature rate cuts

"The location of the swearing-in symbolizes the central challenge Warsh faces: how to lead an independent institution while serving under a president who believes he should drive monetary policy."

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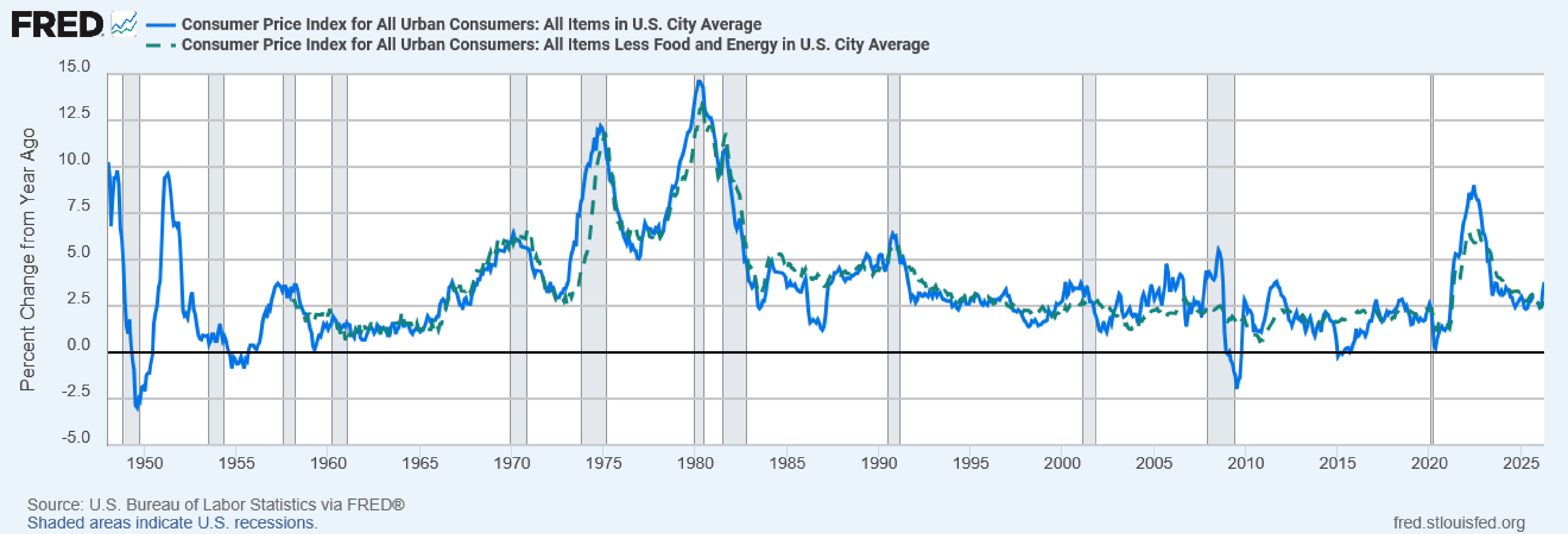
INFLATION

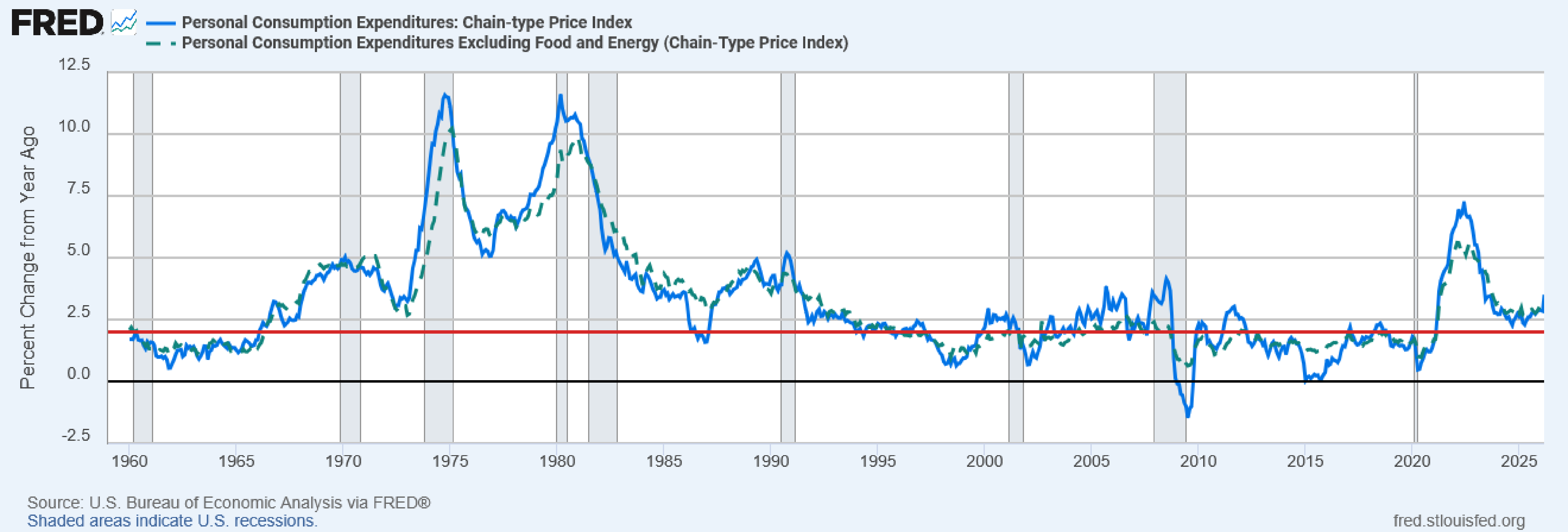
Inflation…Consumer Price Index (CPI)

- Average: 3.53% (1950 – 4/2026)
- Median: 2.87% (1950 – 4/2026)



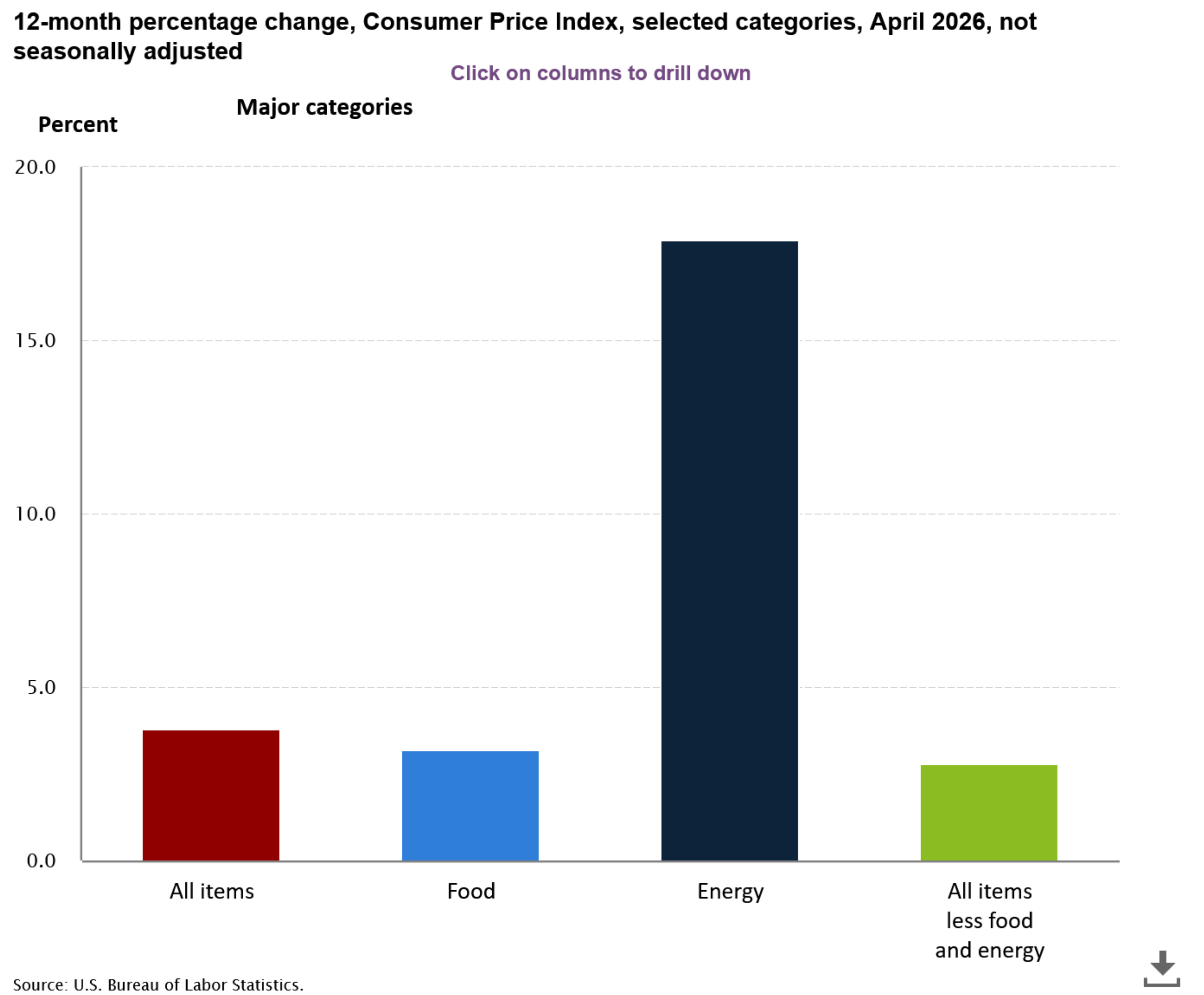
Inflation…Personal Consumption Expenditures (PCE)

- Average: 3.28% (1960 – 3/2026)
- Median: 2.59% (1960 – 3/2026)

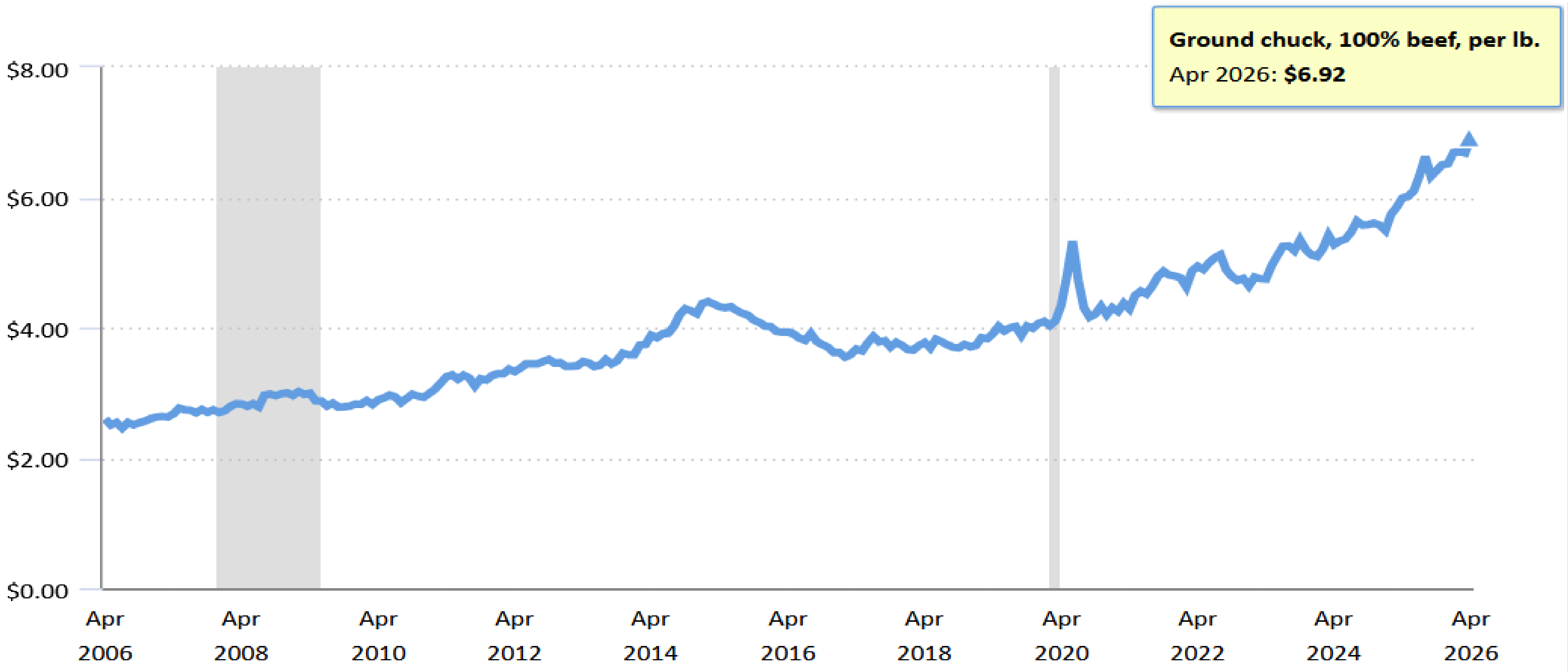


Inflation Moves Higher

	CPI	Core CPI	PCE	Core PCE
Apr-25	2.33	2.78	2.28	2.61
May-25	2.38	2.77	2.46	2.78
Jun-25	2.68	2.91	2.59	2.81
Jul-25	2.74	3.05	2.61	2.86
Aug-25	2.94	3.11	2.75	2.91
Sep-25	3.02	3.02	2.79	2.83
Oct-25	0.00	0.00	2.71	2.75
Nov-25	2.70	2.60	2.82	2.83
Dec-25	2.65	2.65	2.88	2.97
Jan-26	2.39	2.51	2.86	3.08
Feb-26	2.43	2.47	2.83	3.00
Mar-26	3.29	2.60	3.50	3.20
Apr-26	3.78	2.74	-	-

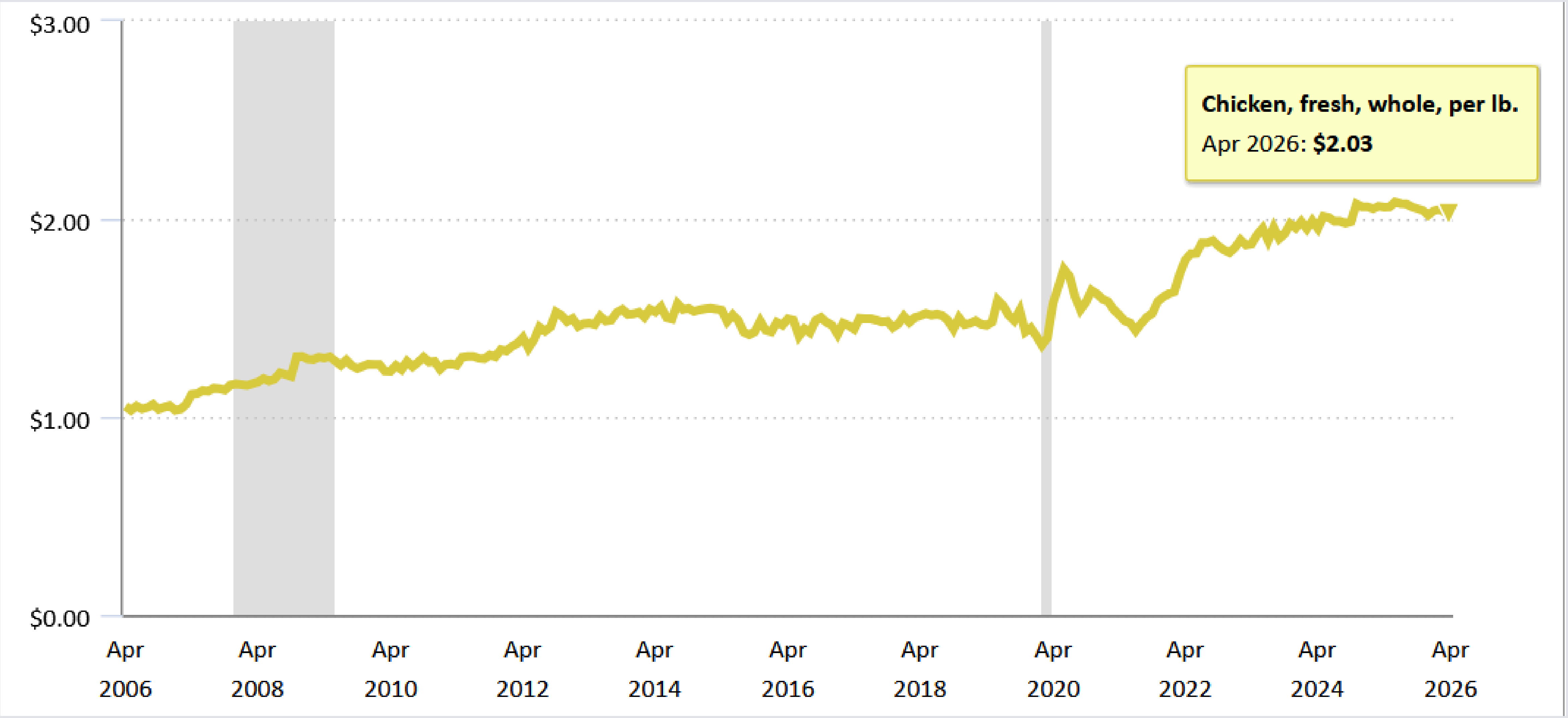

12-month percentage change, Consumer Price Index, selected categories, April 2026, not seasonally adjusted
Click on columns to drill down
Major categories
Percent
20.0
15.0
10.0
5.0
0.0
All items
Food
Energy
All items less food and energy
Source: U.S. Bureau of Labor Statistics.

May 12, 2026 - CPI and Your Shopping Cart



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

May 12, 2026 - CPI and Your Shopping Cart



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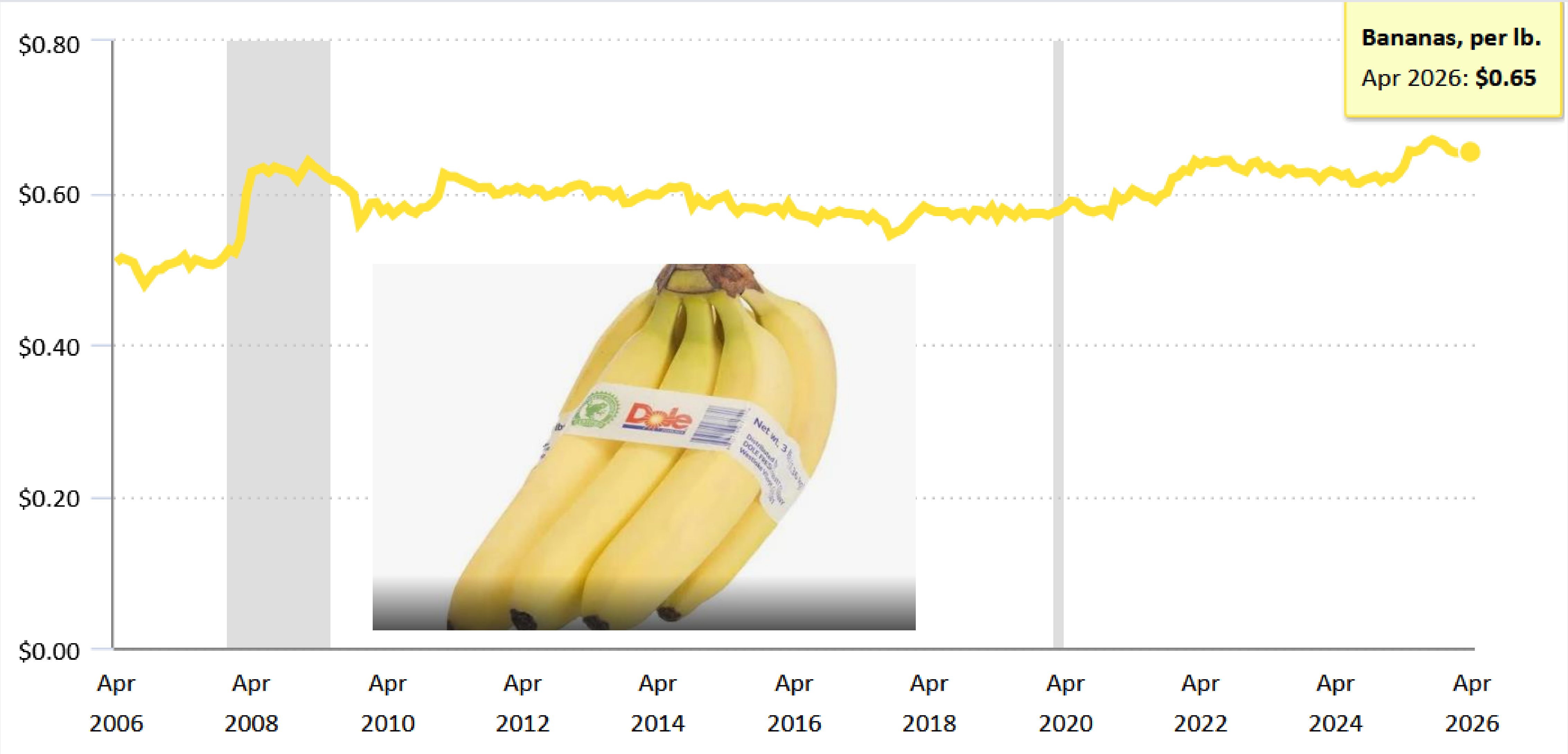
May 12, 2026 - CPI and Your Shopping Cart



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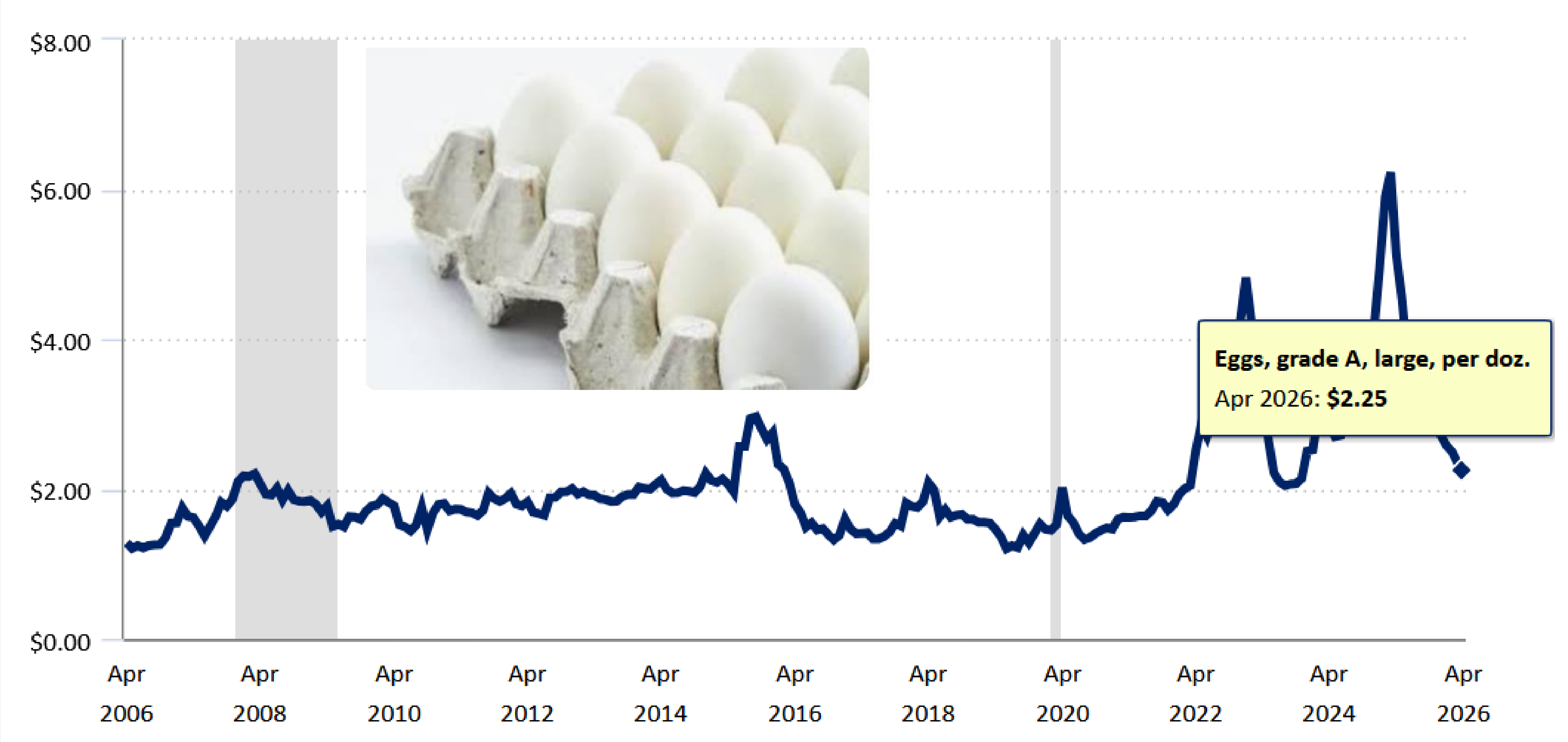

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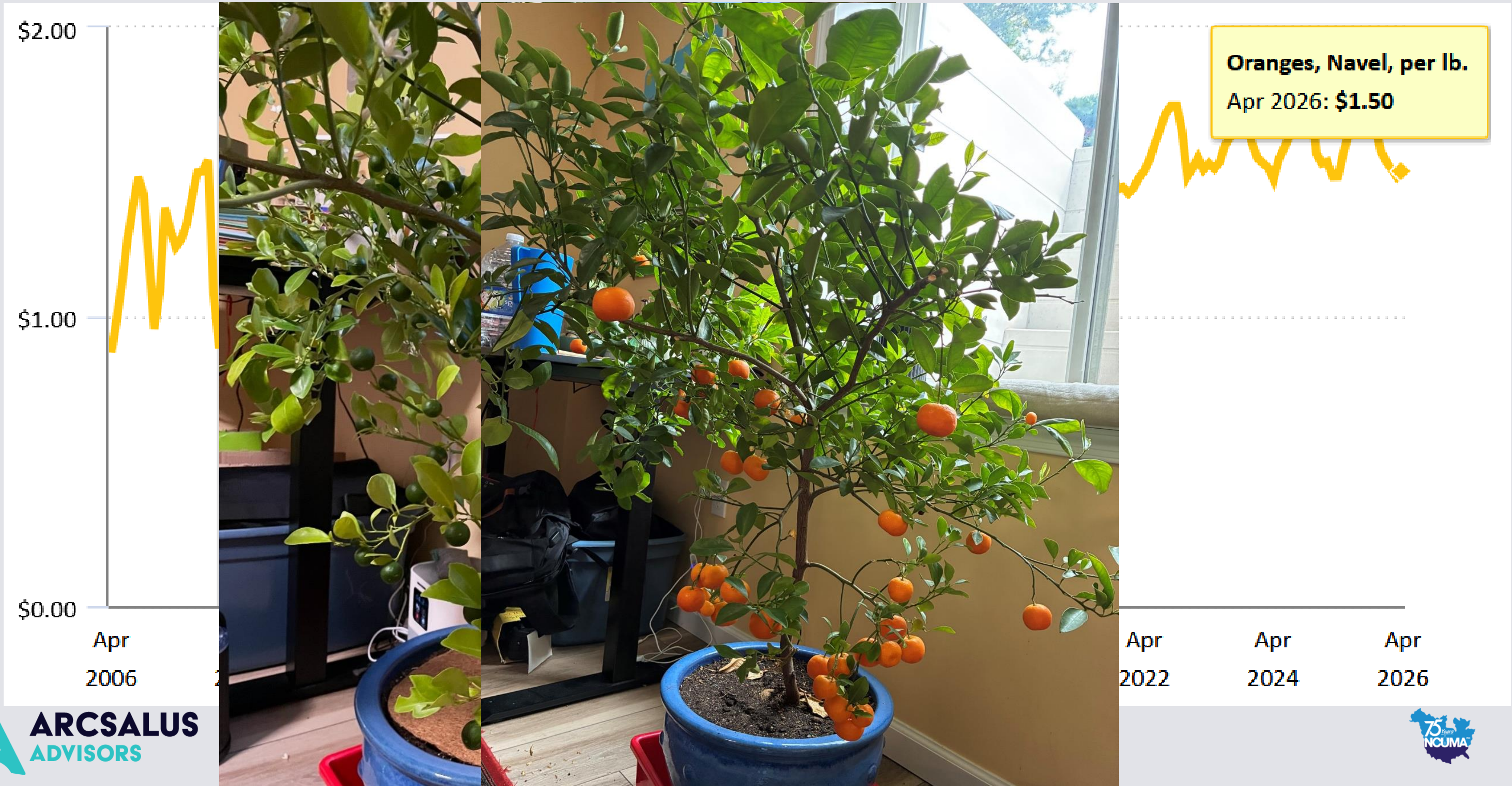

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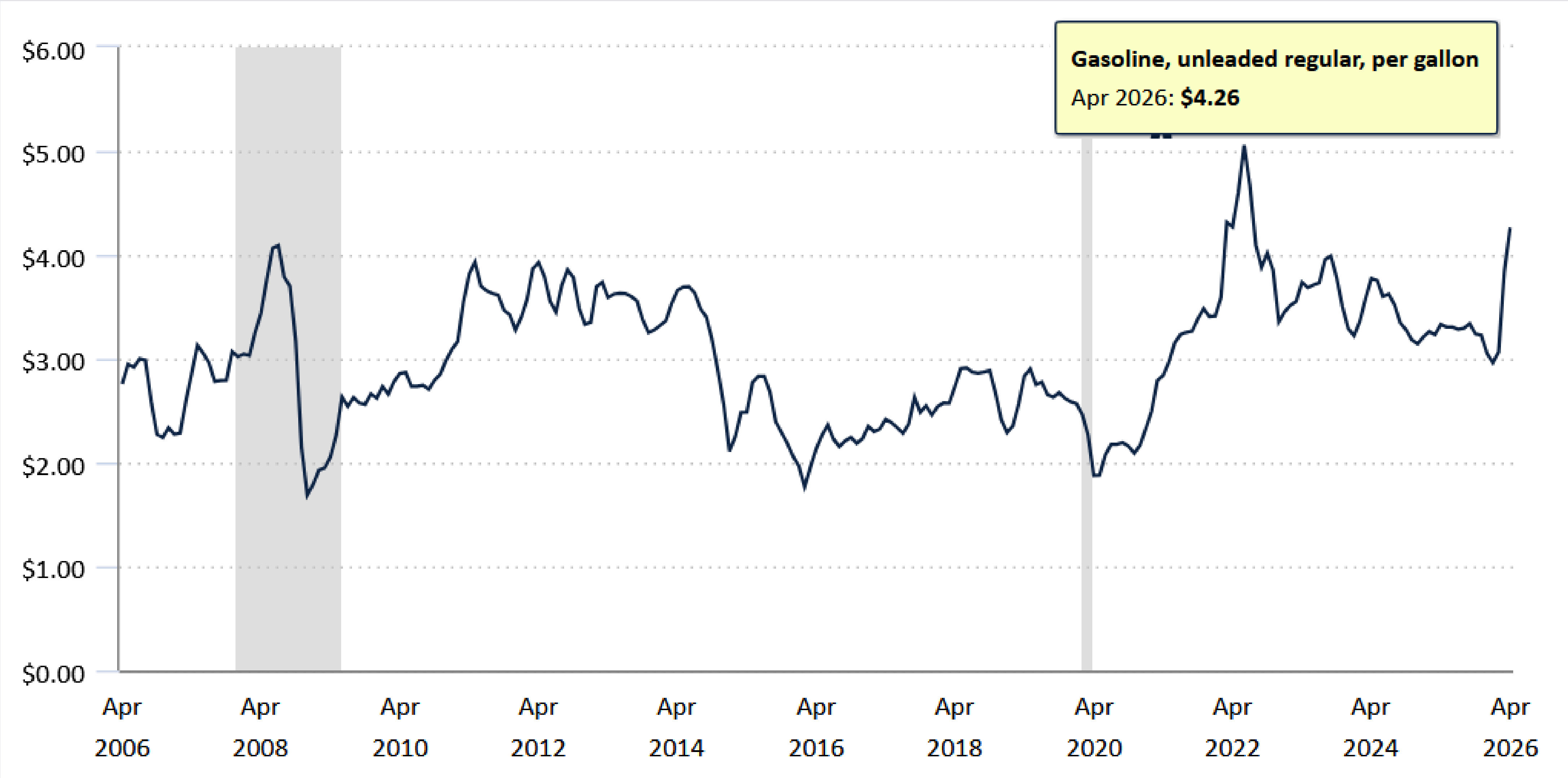

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Inflation…Producer Price Index (PPI)

Table A. Monthly and 12-month percent changes in selected final demand price indexes, seasonally adjusted

Month	Total final demand	Final demand less foods, energy, and trade	Final demand goods				Final demand services				Change in final demand from 12 months ago (unadj.)	Change in final demand less foods, energy, and trade from 12 mo. ago (unadj.)
			Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other		
2025												
Mar....	-0.1	0.1	-0.7	-2.0	-3.0	0.3	0.1	0.4	-1.7	0.3	3.2	3.5
Apr.....	-0.3	-0.2	-0.1	-1.0	-0.5	0.3	-0.3	-0.3	0.1	-0.4	2.4	2.7
May. ..	0.3	0.1	0.1	0.2	-0.2	0.3	0.4	1.3	0.0	0.1	2.7	2.7
June...	0.2	0.1	0.3	0.2	0.9	0.2	0.1	0.0	-0.6	0.2	2.4	2.6
July....	0.8	0.7	0.6	1.2	0.7	0.4	0.9	1.2	1.4	0.7	3.2	2.9
Aug....	-0.2	0.3	0.2	-0.1	-0.2	0.4	-0.3	-2.1	0.6	0.3	2.7	3.0
Sept...	0.6	0.2	0.6	0.8	2.0	0.2	0.6	1.6	0.7	0.2	3.0	3.0
Oct.....	0.1	0.6	-0.2	-0.4	-2.2	0.5	0.2	-0.9	0.0	0.7	2.8	3.5
Nov.[1]..	0.4	0.3	0.8	0.1	3.4	0.2	0.3	0.2	0.8	0.2	3.1	3.6
Dec.[1]..	0.4	0.1	-0.1	-0.2	-1.5	0.4	0.6	2.0	0.2	0.0	3.2	3.4
2026												
Jan.[1]..	0.6	0.5	-0.1	-1.4	-1.8	0.7	0.8	2.0	1.0	0.3	3.1	3.5
Feb.[1]..	0.5	0.5	1.0	2.4	2.1	0.3	0.3	-0.4	0.4	0.6	3.4	3.5
Mar....	0.5	0.2	1.6	-0.3	8.5	0.2	0.0	-0.3	1.3	0.1	4.0	3.6

[1] Some of the figures shown above and elsewhere in this release may differ from those previously reported because data for November through February have been revised to reflect the availability of late reports and corrections by respondents.

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How will Tariffs inflation impact

Fed Governor Christopher Waller

“Consumers will have to pay about one-third of the price increases from higher tariffs, with the remainder split between foreign suppliers and U.S. importers. So if there is a permanent increase to import tariffs of about 10 percent, I expect this will raise PCE inflation three-tenths of 1 percent this year, and that this increase would fade over the next year or so.”-July 17, 2025

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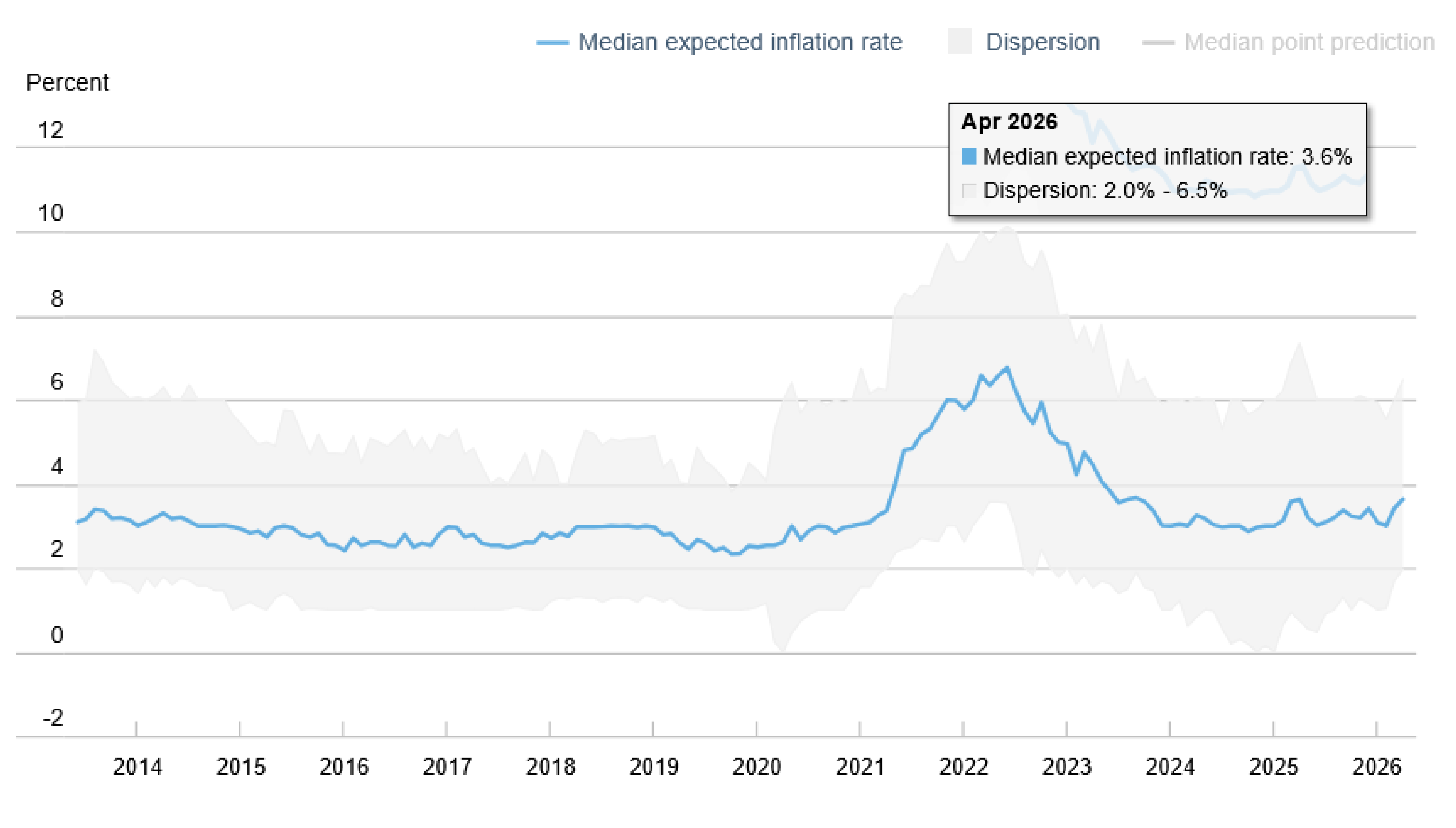
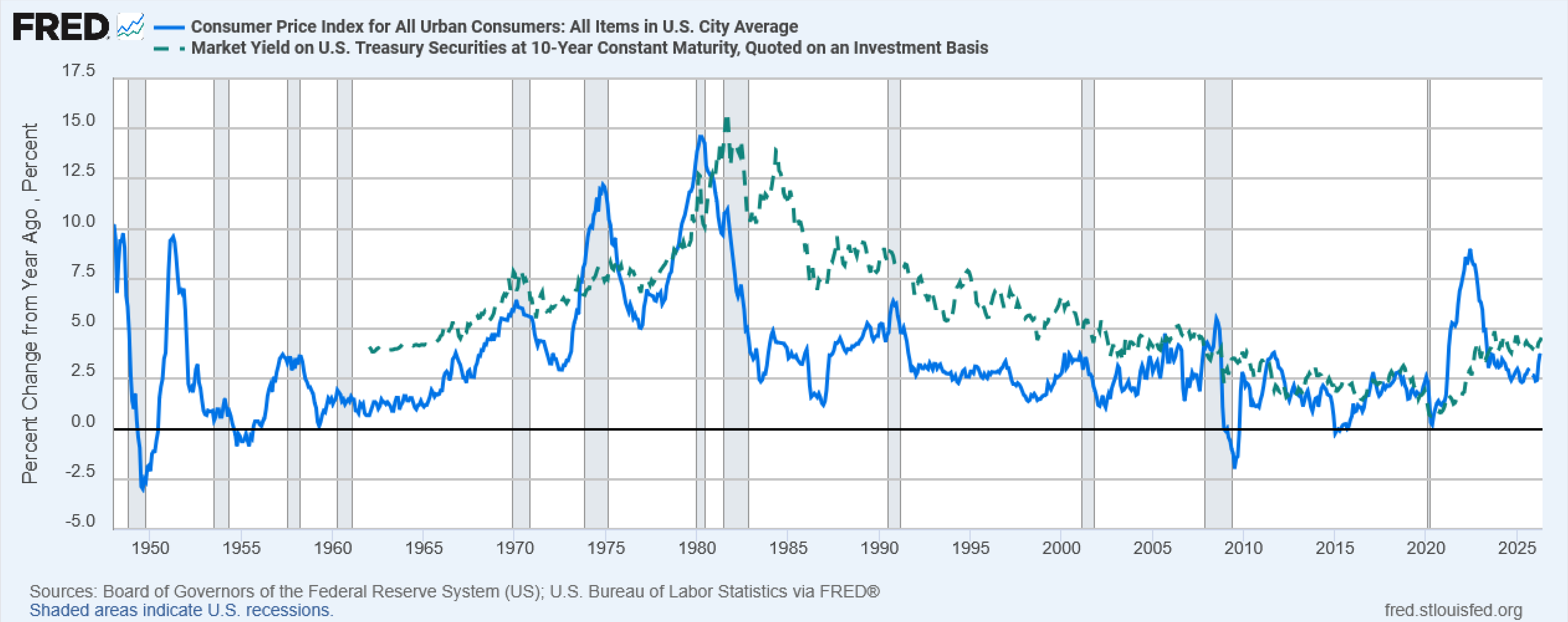
Inflation…Expectations



Source: New York Fed Survey of Consumer Expectations

Note: Collection of data for the five-year-ahead inflation expectation began in January 2022.

Why is it important to look at inflation?



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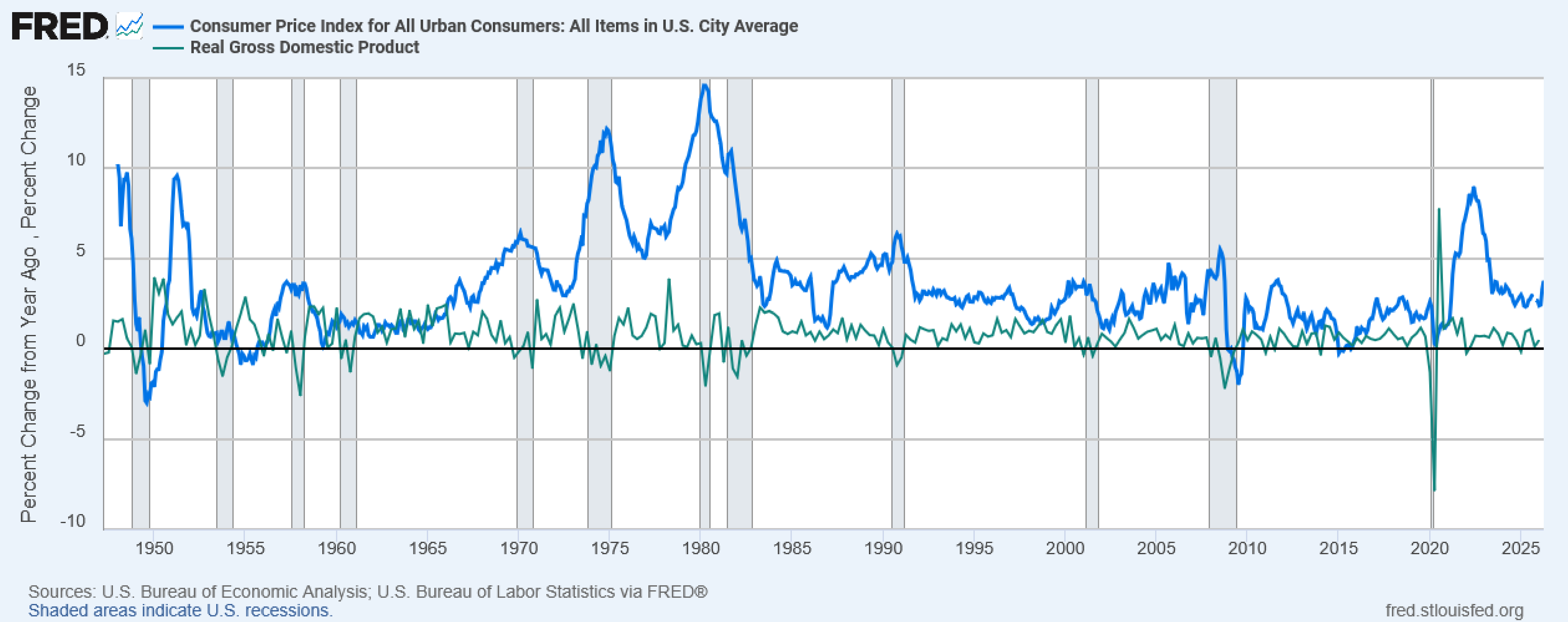

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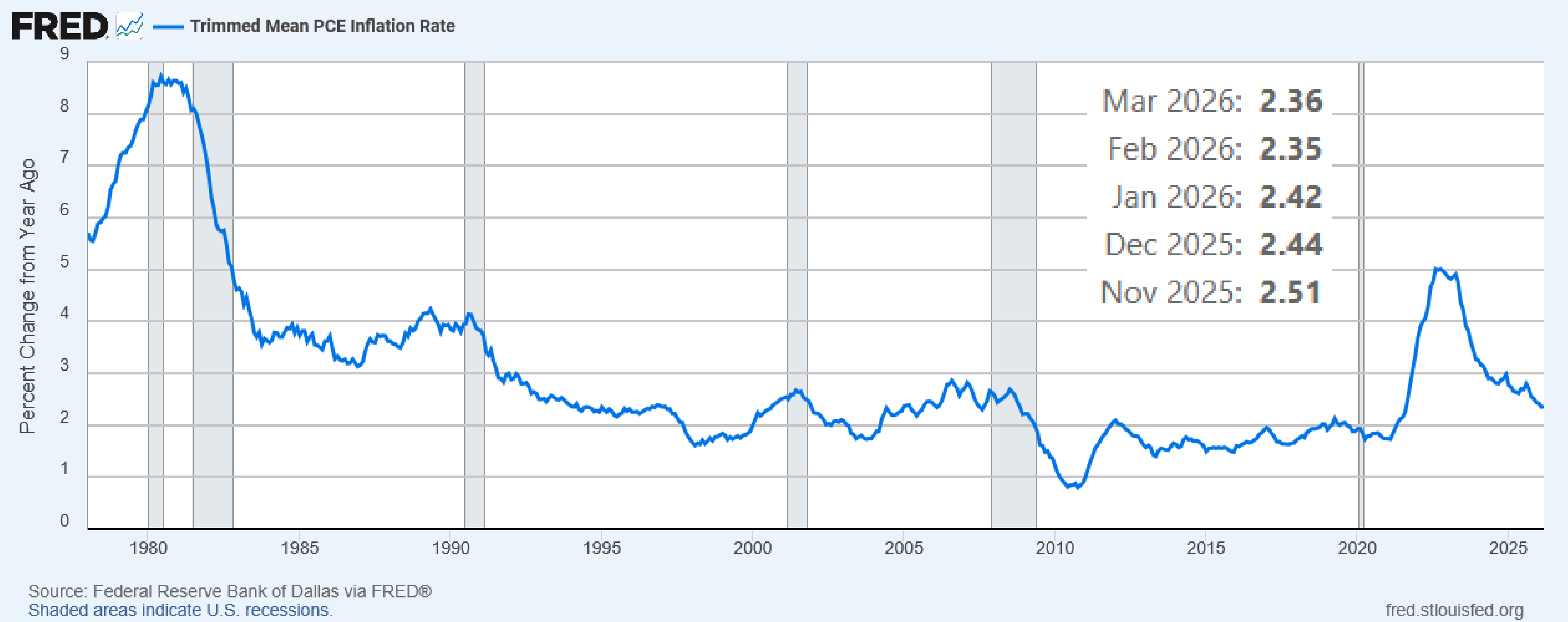
Fed Chair Kevin Warsh Inflation Index



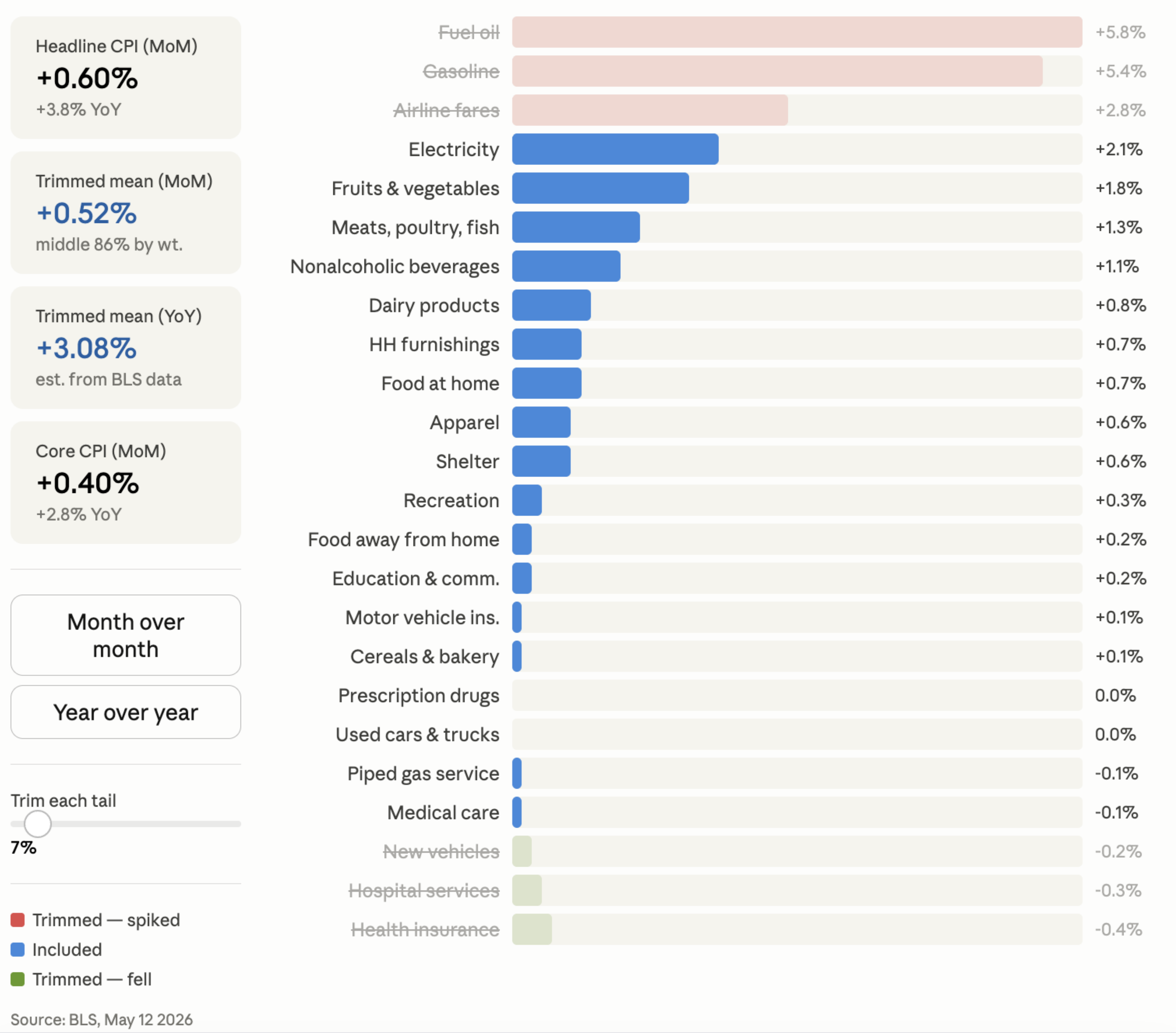
CPI YOY: + 3.8%

<u>Trimmed:</u>

5%: 3.25%

10%: 3.12%

15%: 3.01%

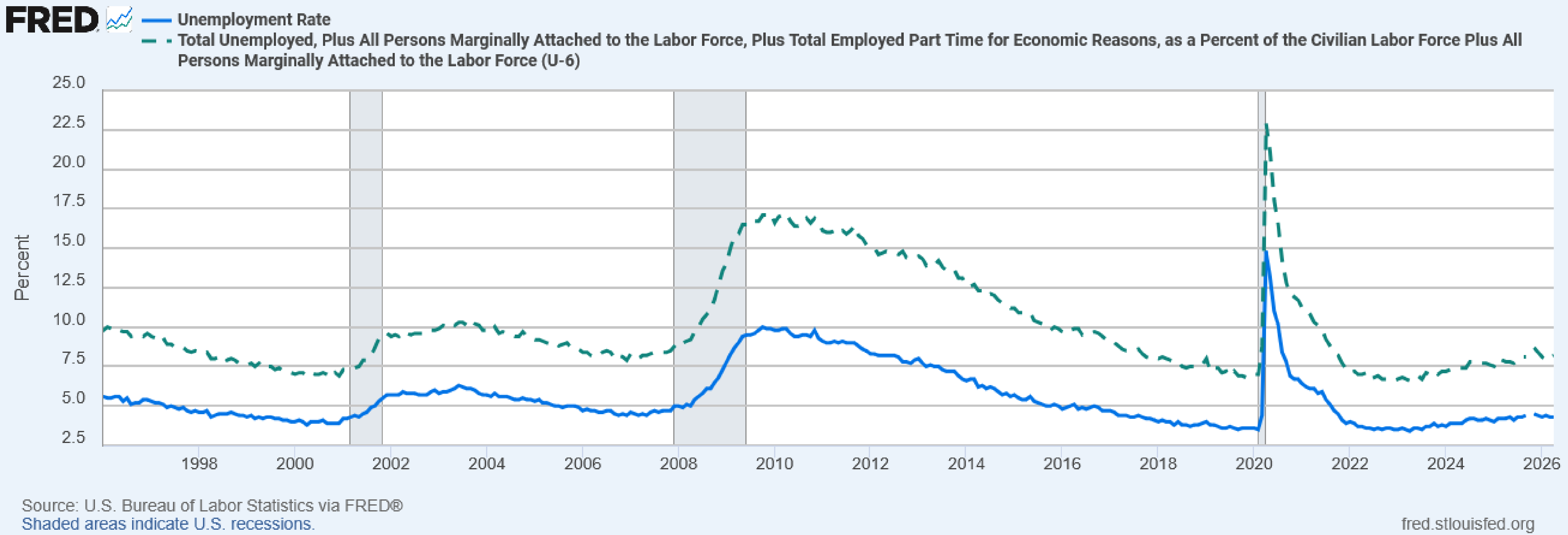


EMPLOYMENT SITUATION

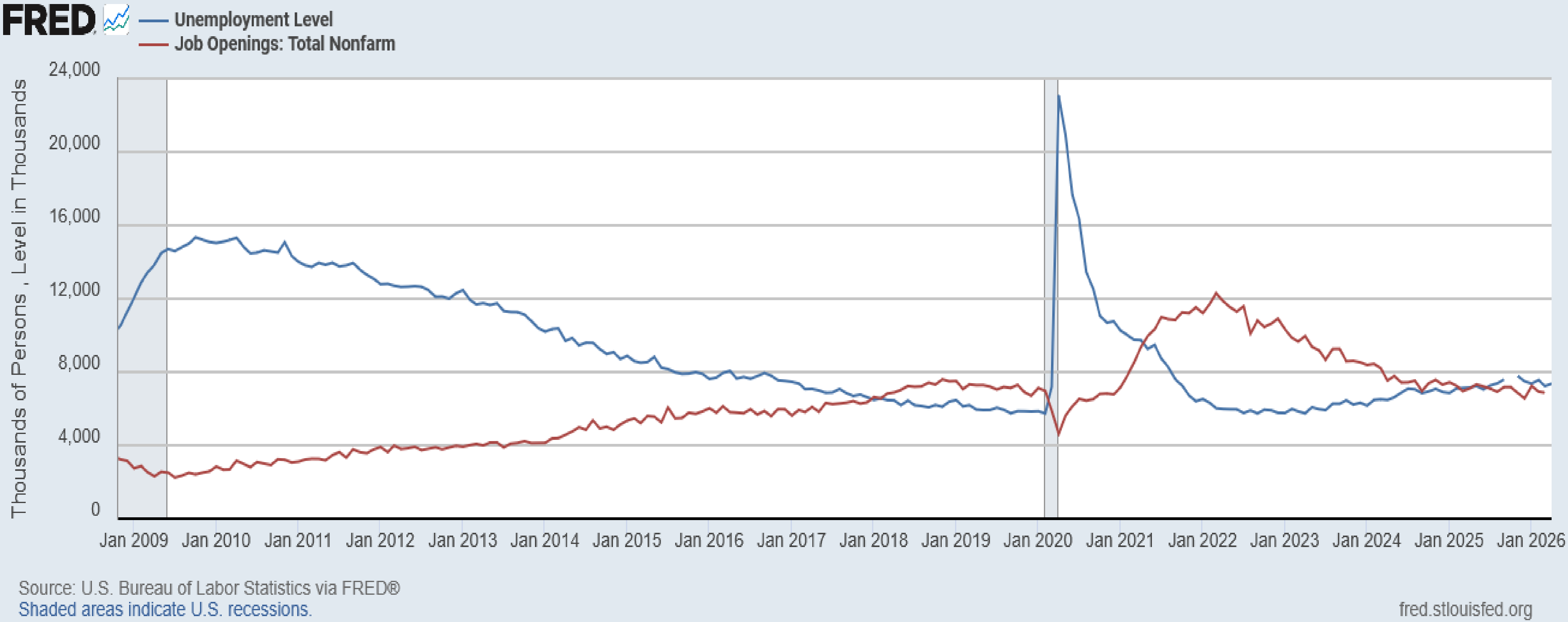
Employment…Unemployment Rate

April 2026

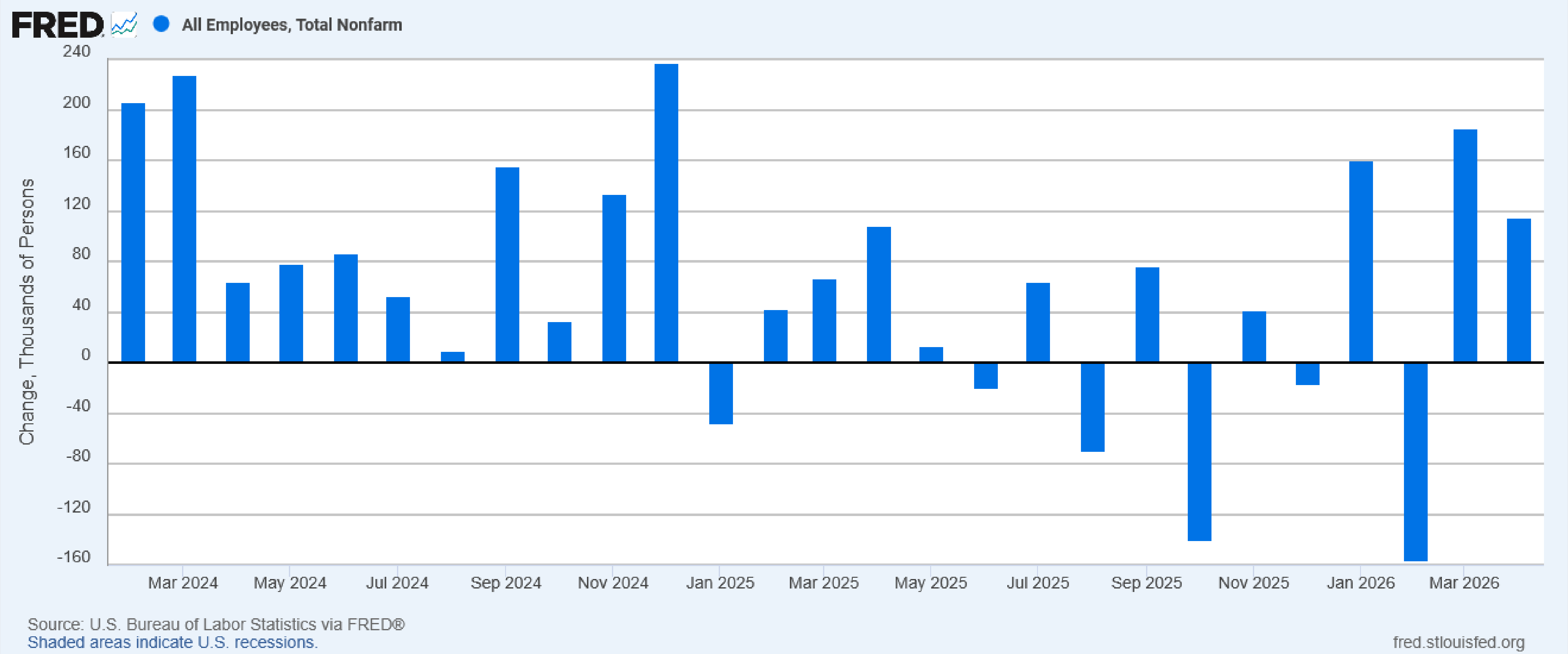
- Unemployment Rate: 4.3%



Employment…Job Openings to Unemployment



Employment…Jobs Created



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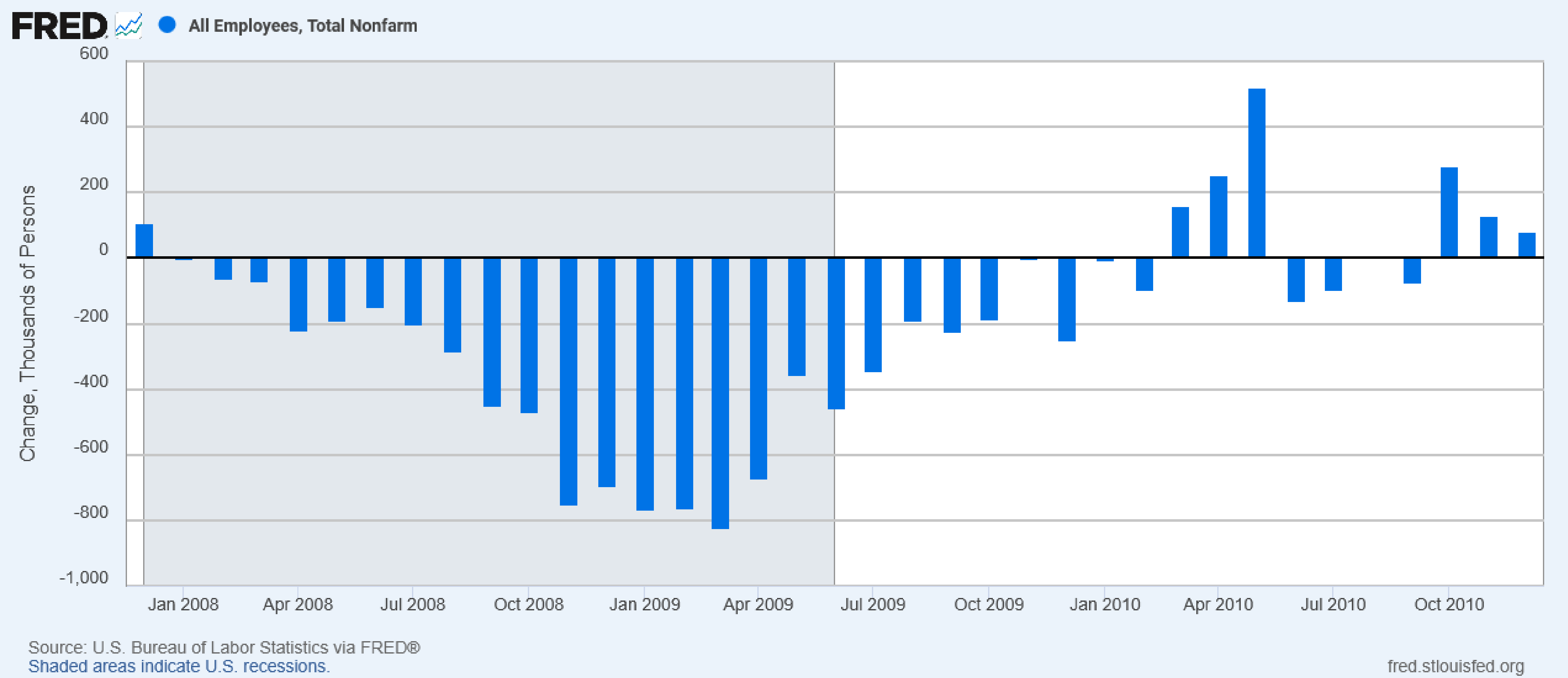
Employment…Job Creation during a Recession



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GROSS DOMESTIC PRODUCT UPDATE

THE FOUR COMPONENTS OF GDP

$$GDP = C + I + G + (X-M)$$

% of Total GDP

68%

17%

18%

-3%

GDP Component Contribution to Growth:

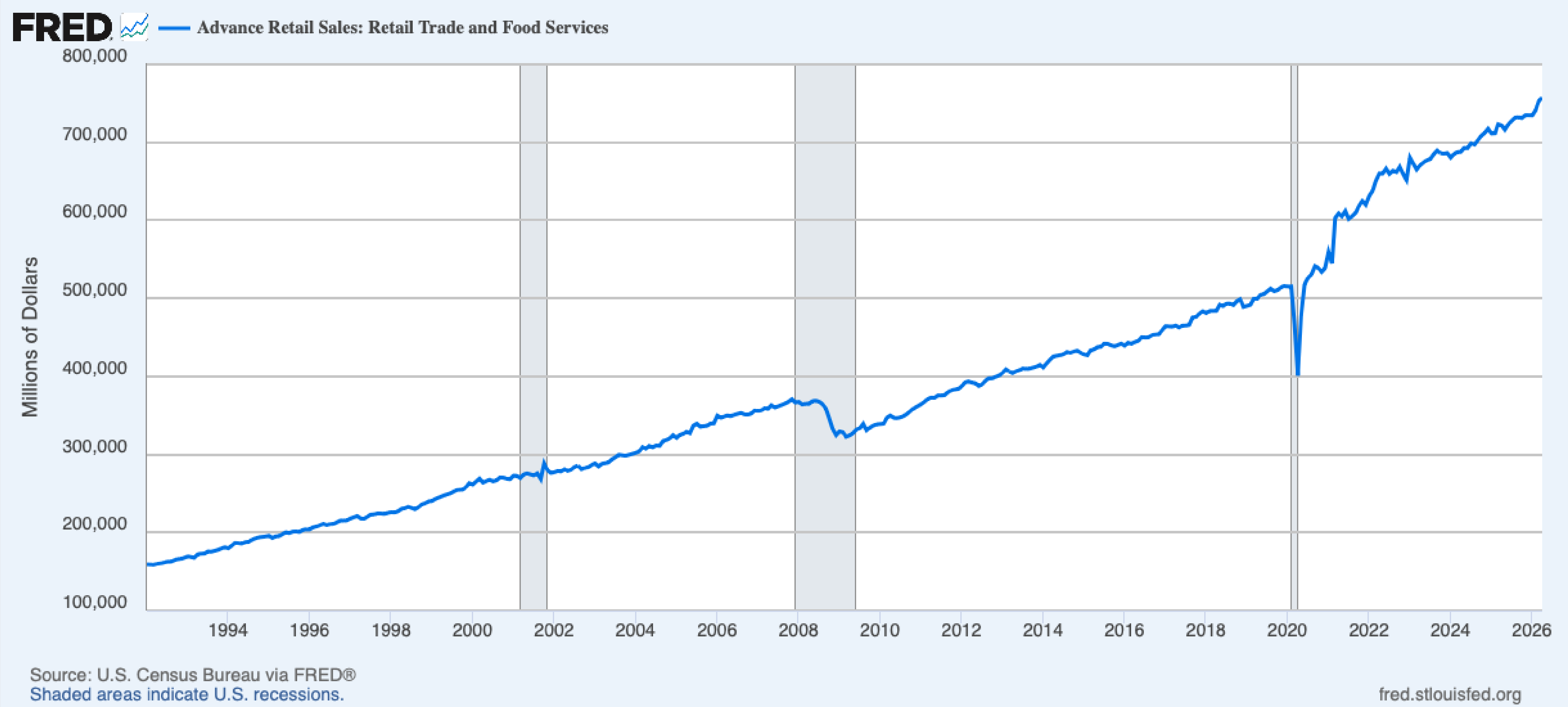
2025 (I) – 2026 (I) 1st of 3 estimates

	2025(1)	2025(II)	2025(III)	2025(IV)	2026 (I)
GDP	-0.6%	3.8%	4.4%	0.50%	2.0%
C	+ 0.42%	+ 1.68%	+ 2.34%	+ 1.30%	1.08%
I	+ 3.79%	-2.66%	+ 0.03%	+0.40%	1.48%
G	-0.17%	-0.07%	+0.38%	- 0.99%	0.73%
E	0.02%	-0.20%	+ 1.00%	- 0.35%	1.32%
M	-4.70%	+5.03%	+ 0.62%	+0.13%	-2.62%

GDP by selected country

	Nominal GDP 2025 US dollars (Billions)	Rank (out of 193 nations)
USA	30,767.08	1
China	19,626.25	2
Germany	5,048.06	3
Japan	4,435.16	4
Russia	2,287.92	8
Canada	2,319.9	10
Mexico	1,326.4	15

Retail Sales



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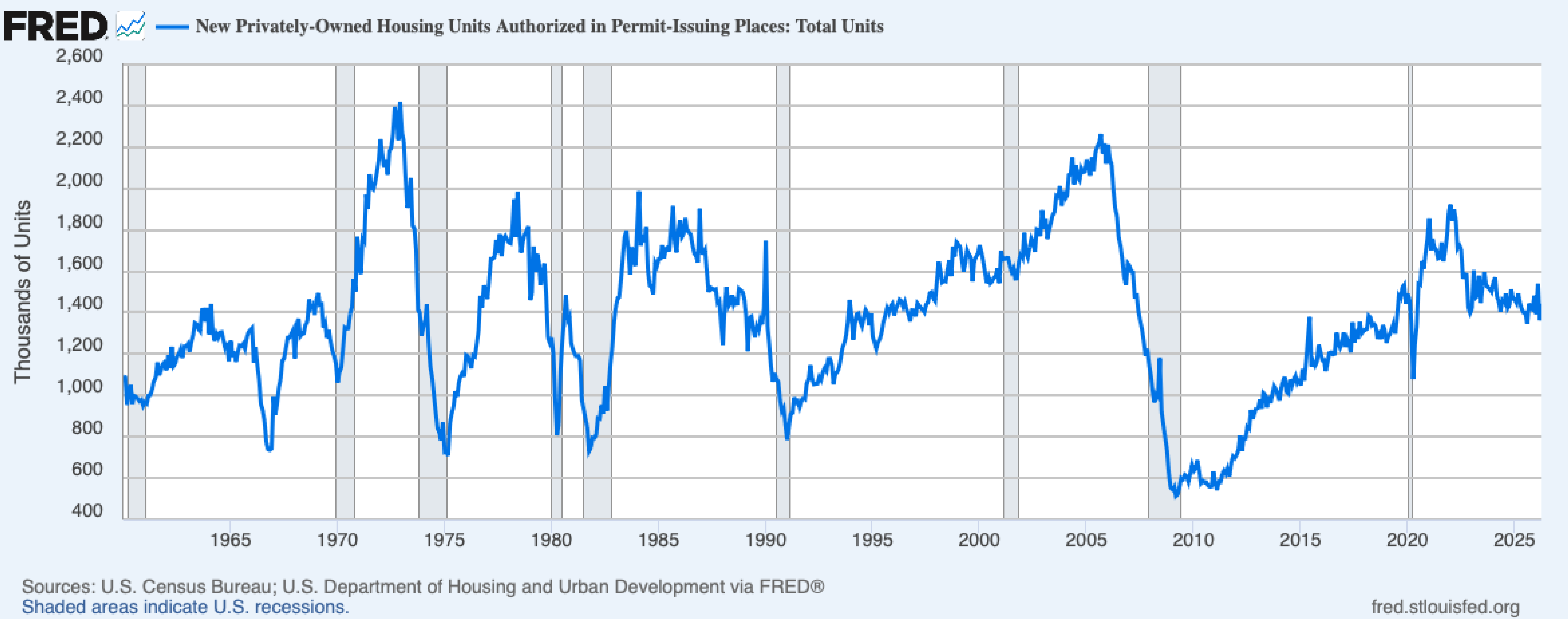
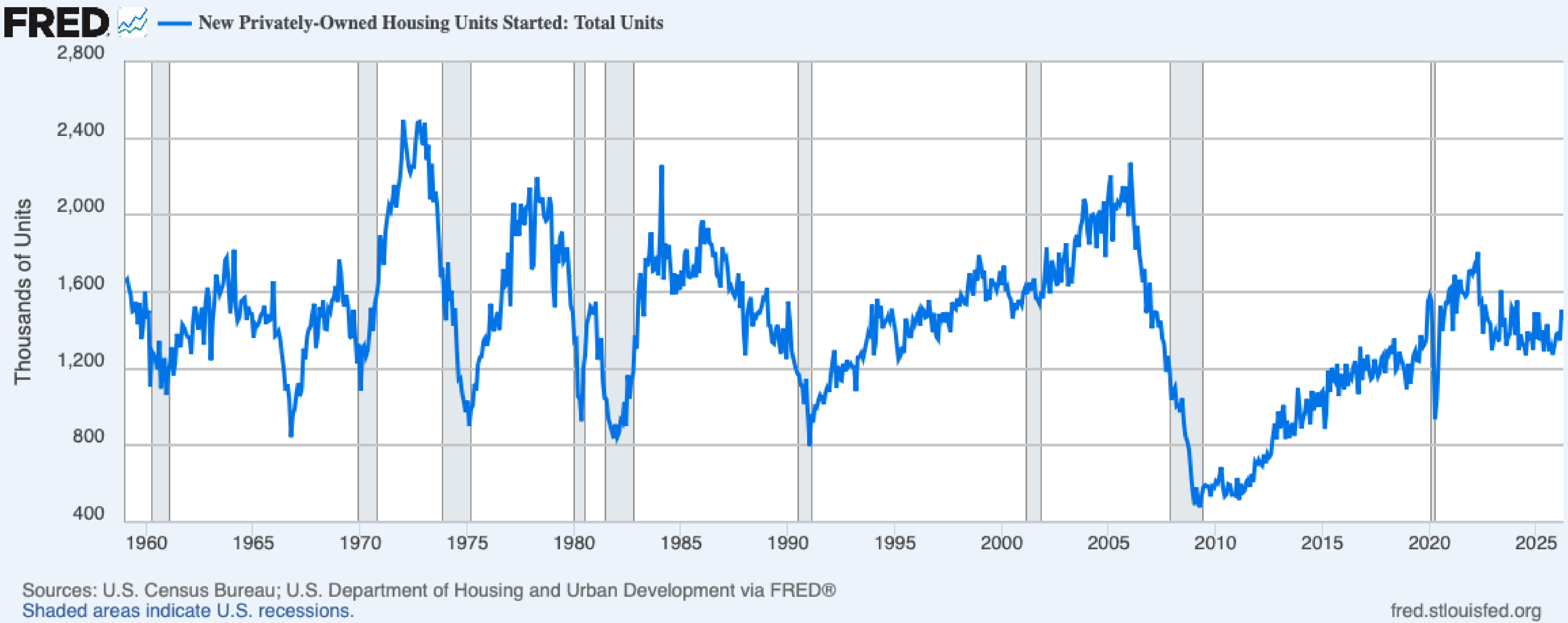
Building Permits



Housing Starts



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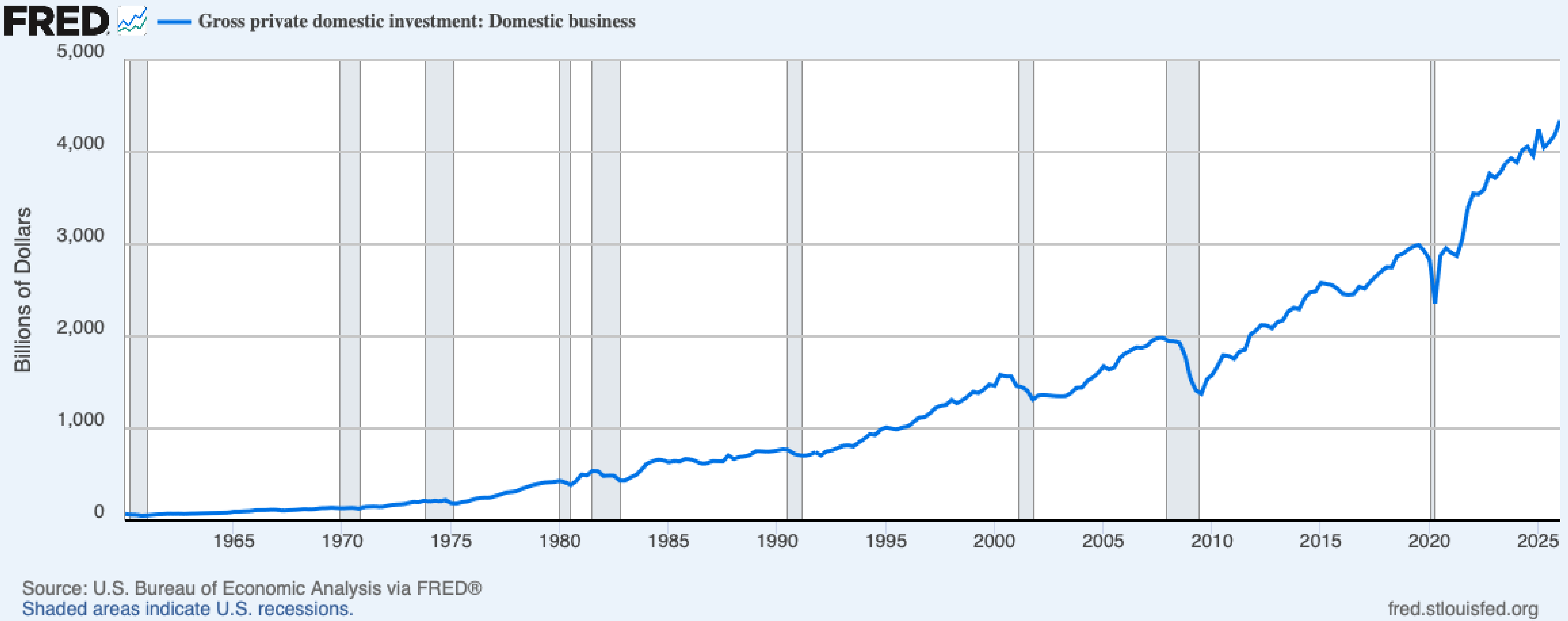
Business Investments



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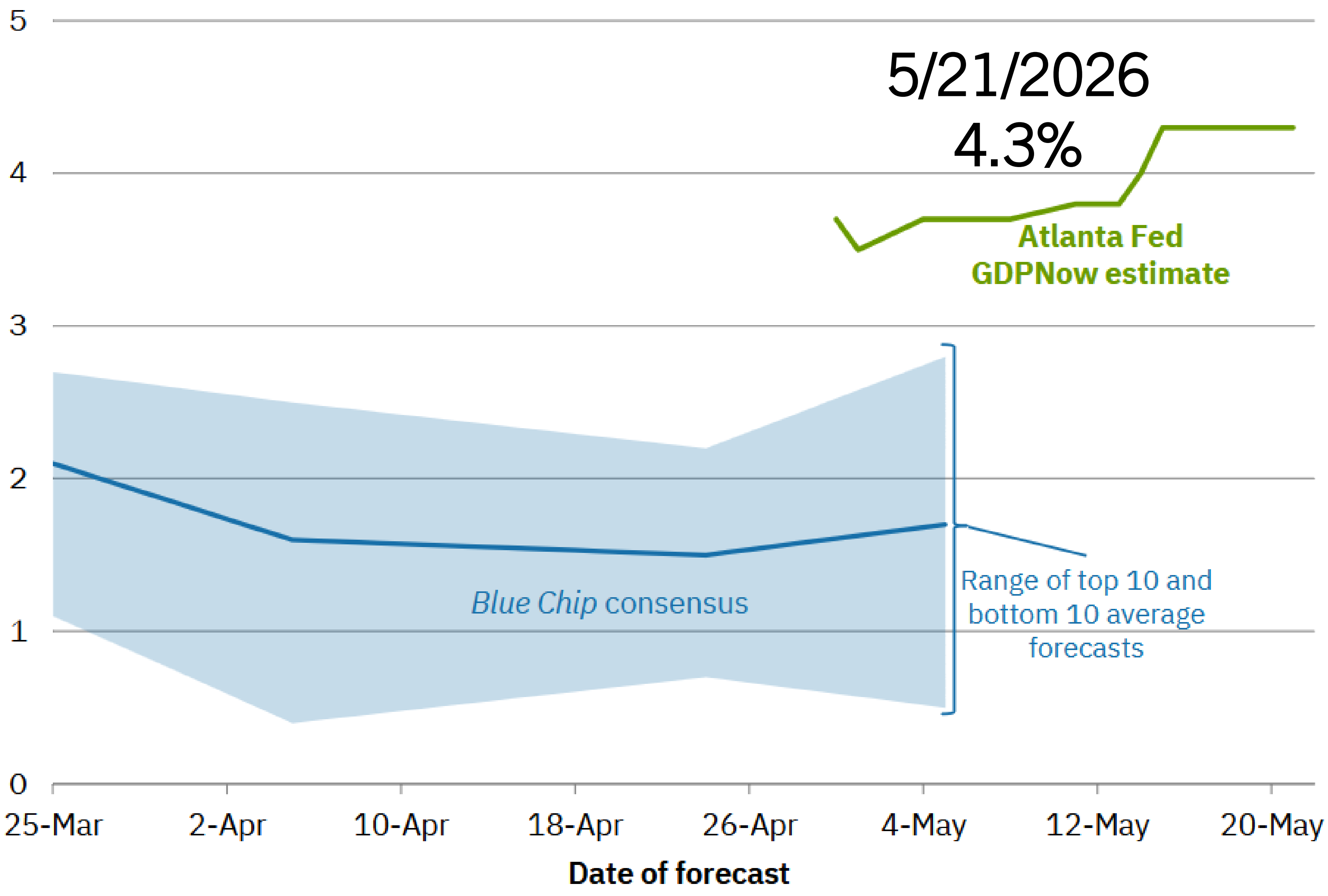
FEDERAL RESERVE BANK of ATLANTA | GDPNow™

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2026: Q2

Quarterly percent change (SAAR)

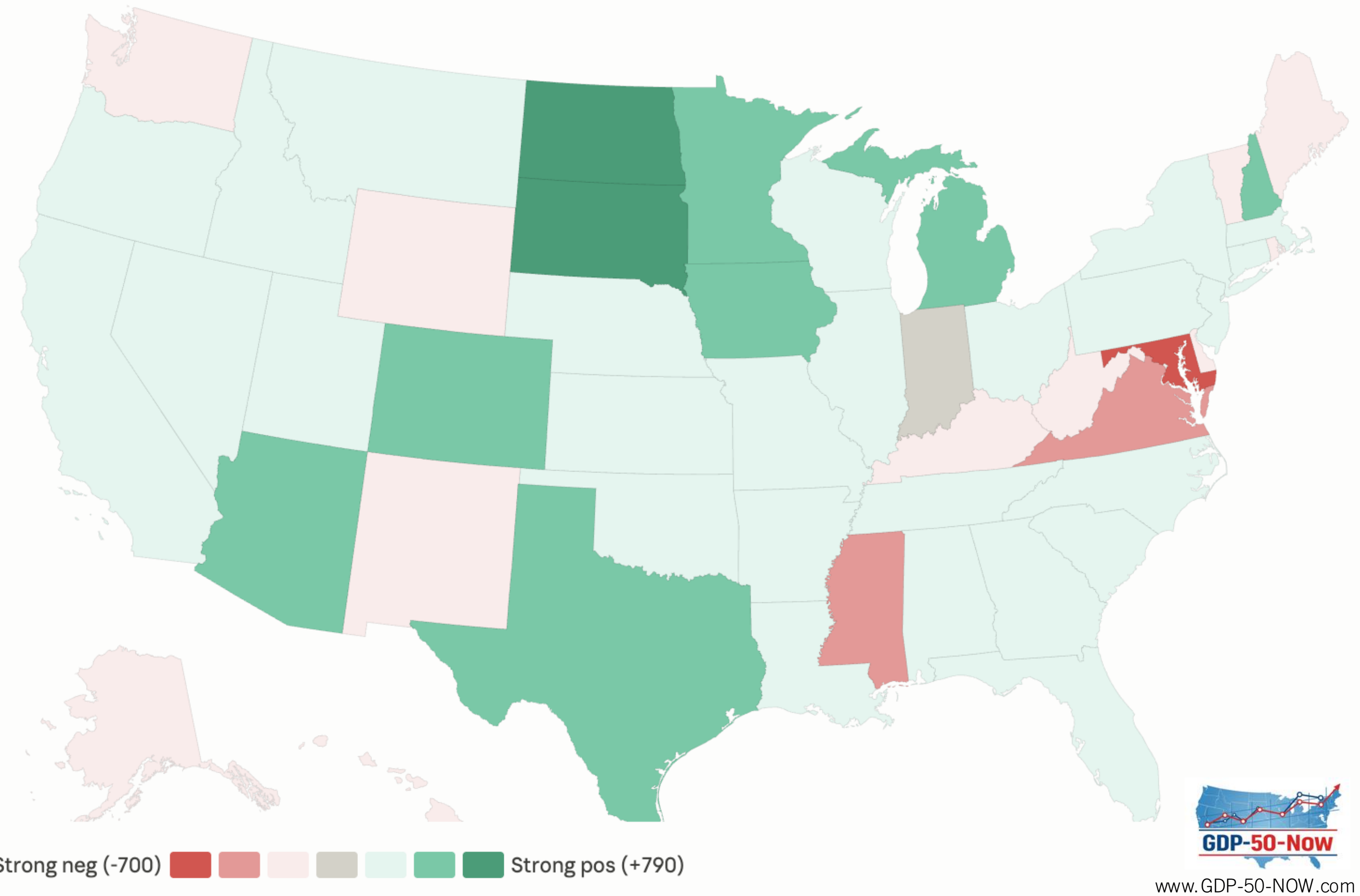


Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

State GDP Variance to National GDP [4Q 2025]

State GDP growth indexed to national GDP growth (US national = 0 baseline). Positive = above national pace, negative = below.



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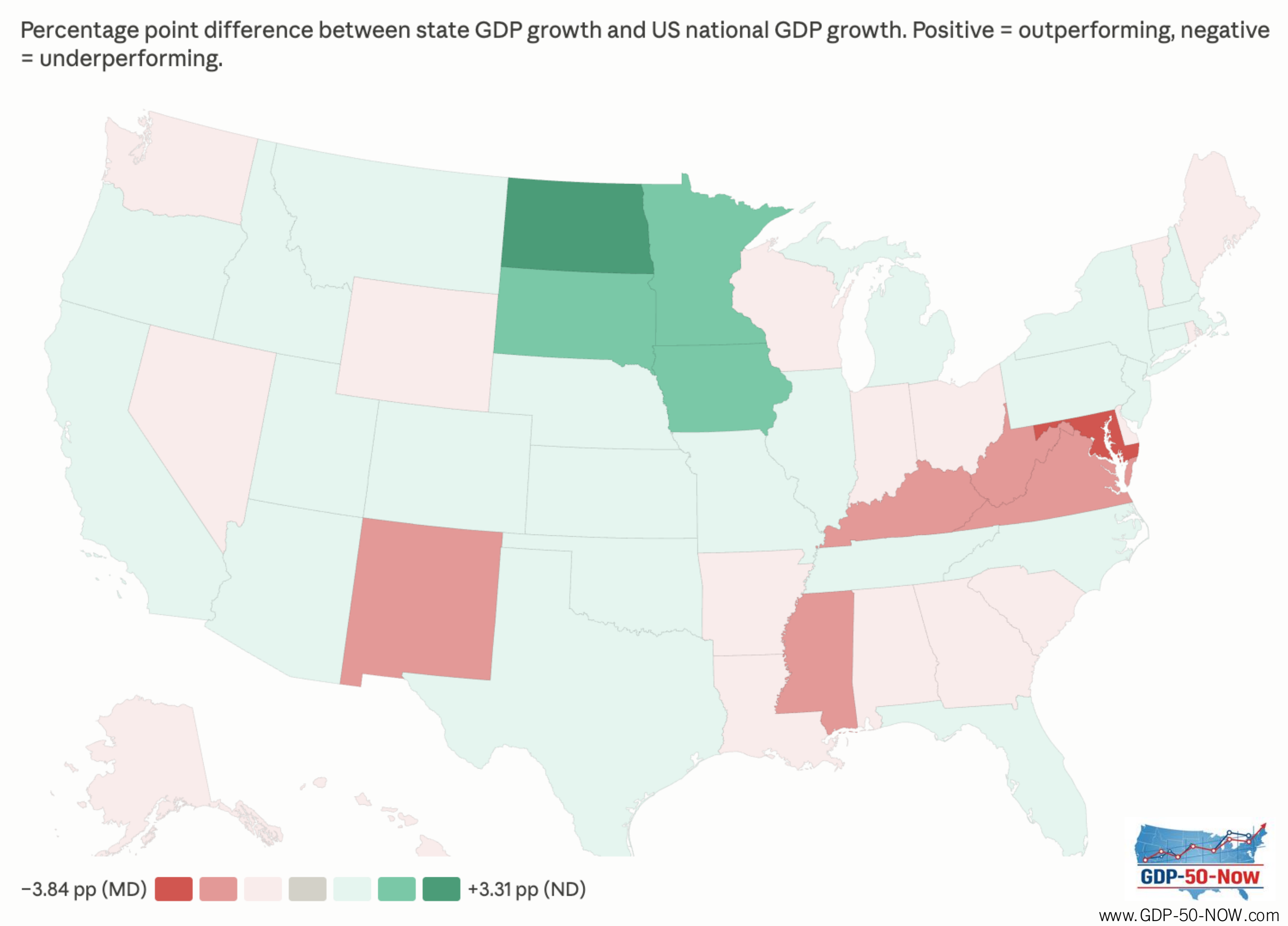
State GDP Variance to National GDP [4Q 2025]



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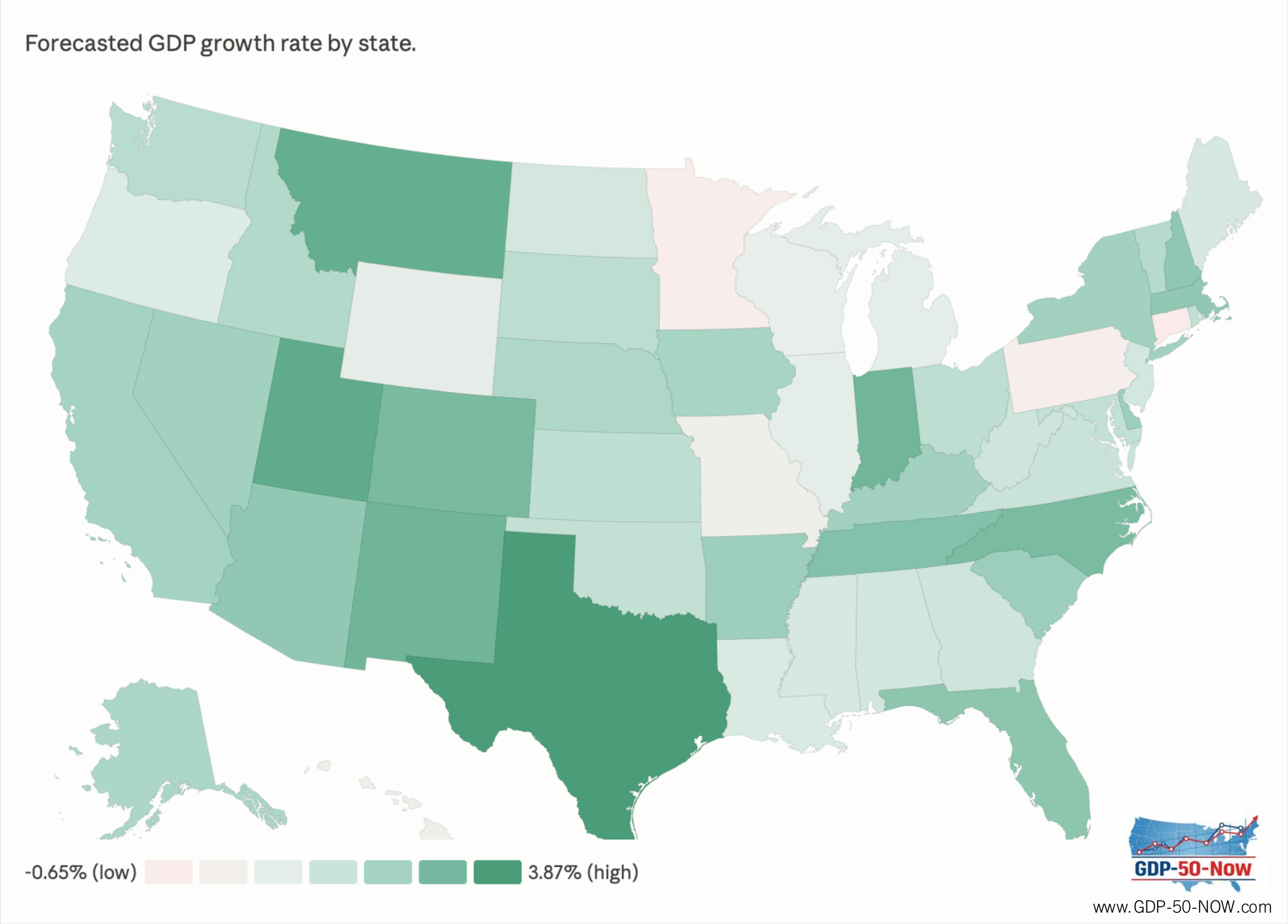
– 1Q 2025 State Focused GDP Forecast



INTEREST RATE ENVIRONMENT

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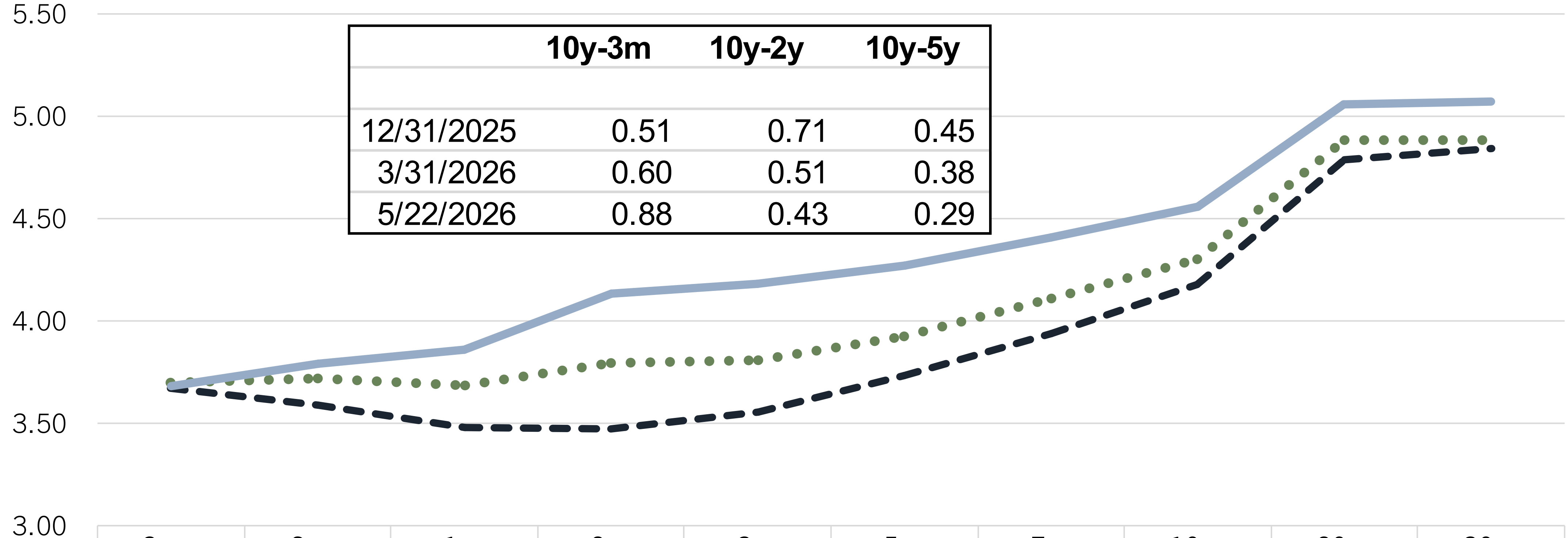
U.S. Treasury Curve

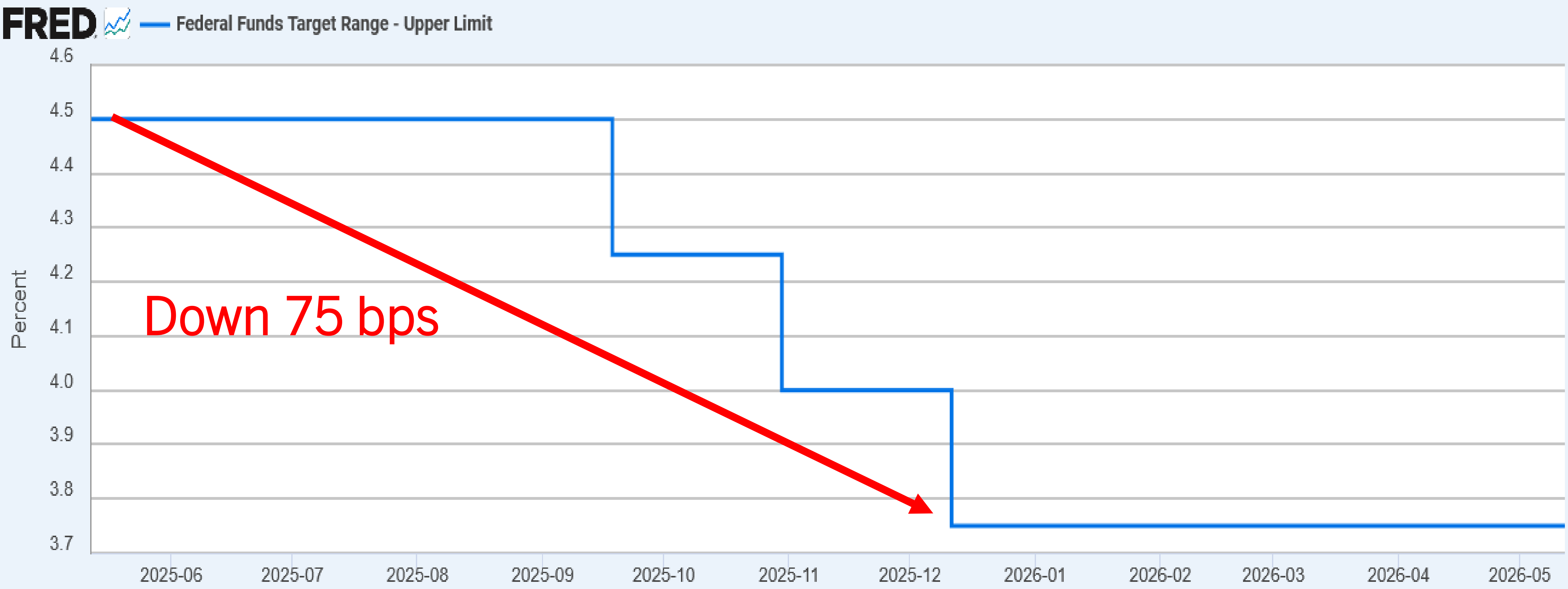


	10y-3m	10y-2y	10y-5y
12/31/2025	0.51	0.71	0.45
3/31/2026	0.60	0.51	0.38
5/22/2026	0.88	0.43	0.29

	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr	30 yr
12/31/2025	3.67	3.59	3.48	3.47	3.55	3.73	3.94	4.18	4.79	4.84
3/31/2026	3.70	3.72	3.68	3.79	3.81	3.92	4.11	4.30	4.88	4.88
5/22/2026	3.68	3.79	3.86	4.13	4.18	4.27	4.41	4.56	5.06	5.07

Source: U.S. Department of the Treasury

Interest Rates –Fed Funds

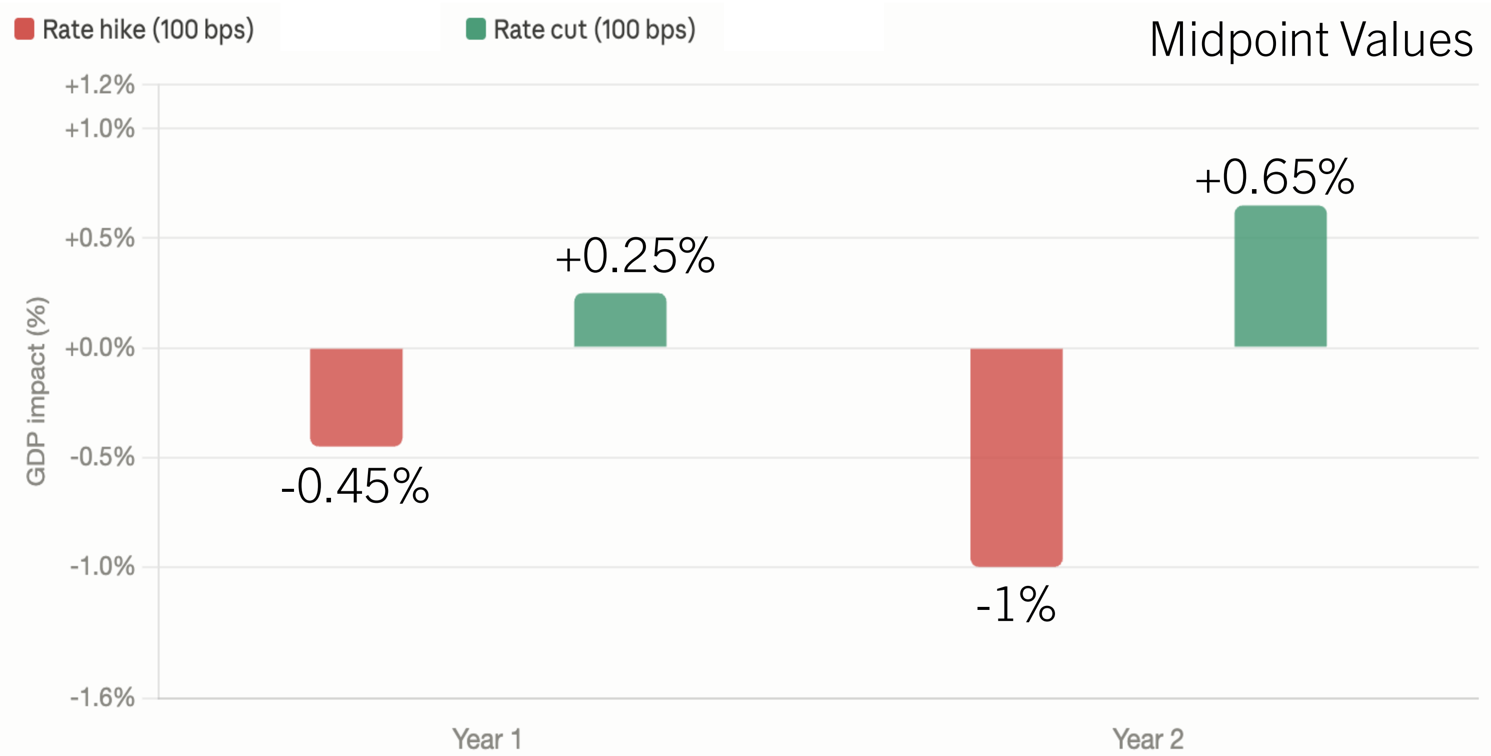


Source: Board of Governors of the Federal Reserve System (US) via FRED®
Shaded areas indicate U.S. recessions.
fred.stlouisfed.org

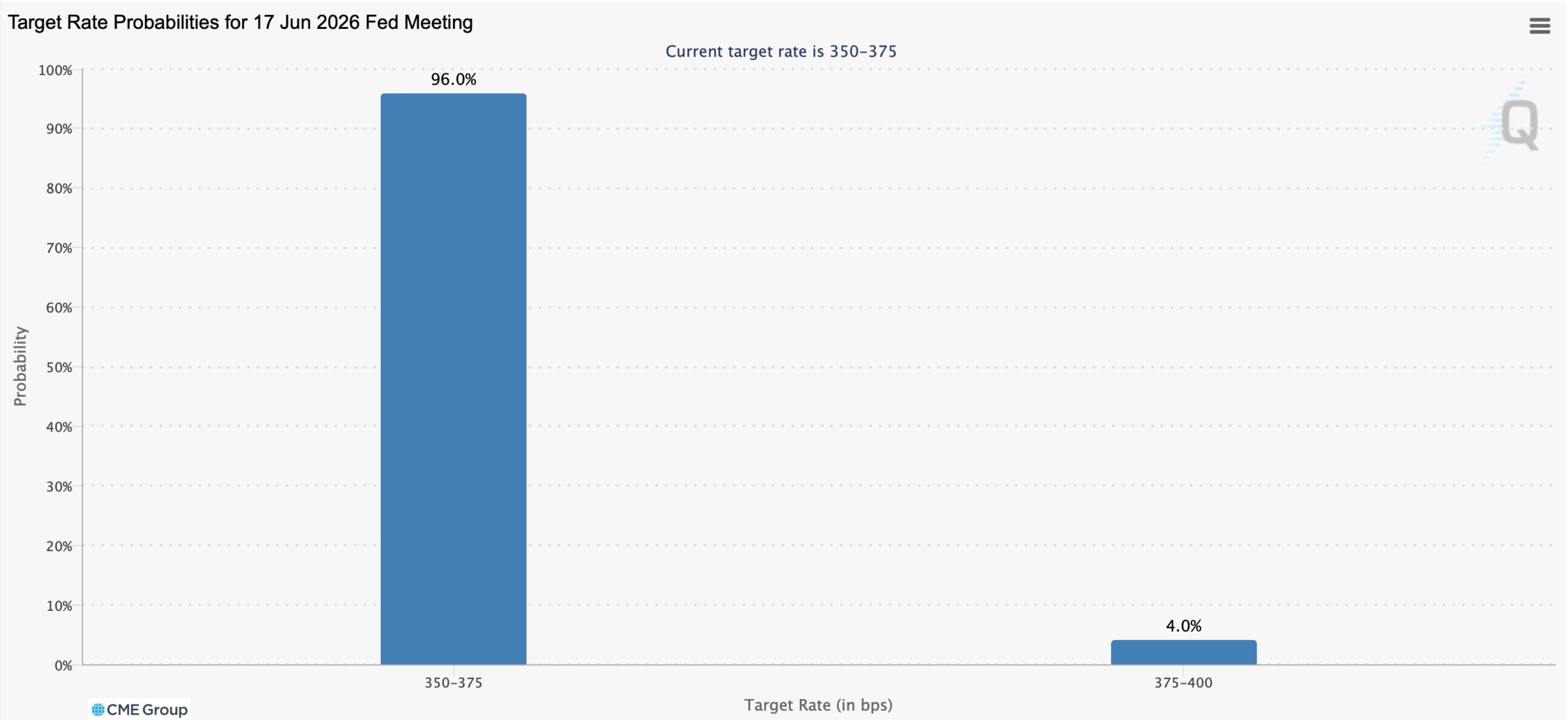
Monetary Policy: The Effect of a 1% Change in the Fed Funds . . .

Rate cut — year 1	Rate cut — year 2
+0.1% to +0.4%	+0.3% to +1.0%

Rate hike — year 1	Rate hike — year 2
−0.3% to −0.6%	−0.5% to −1.5%



Interest Rates – Market Projections of Fed Funds



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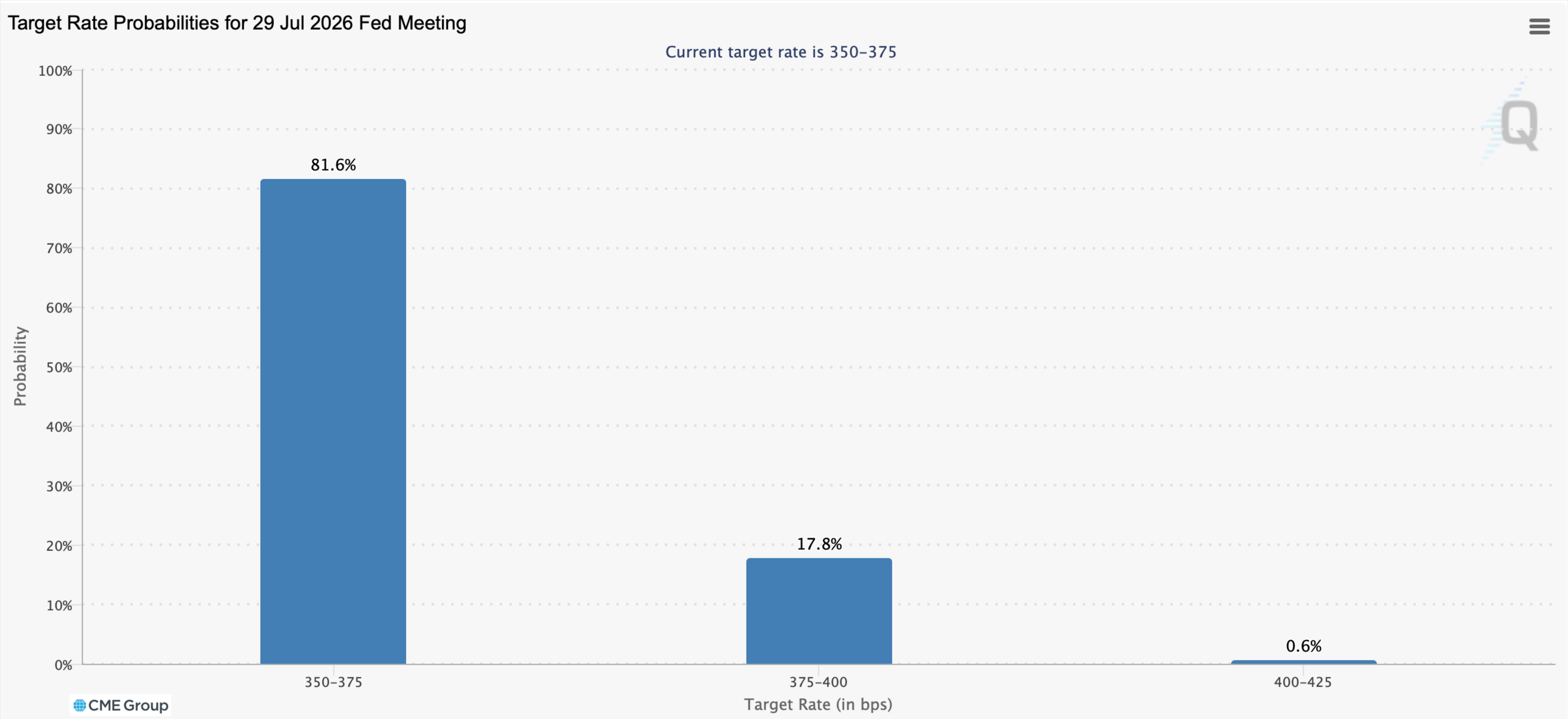
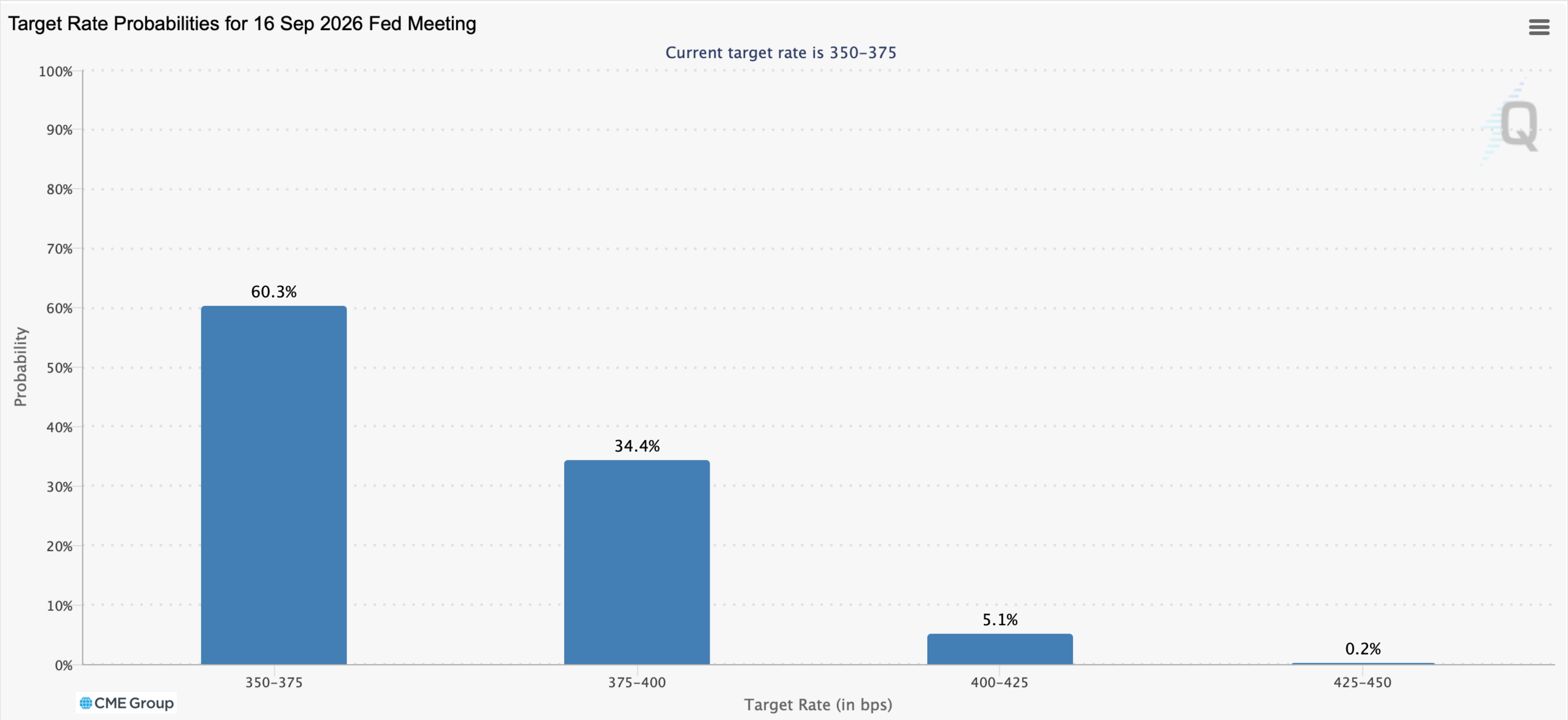
Interest Rates – Market Projections of Fed Funds



Interest Rates – Market Projections of Fed Funds



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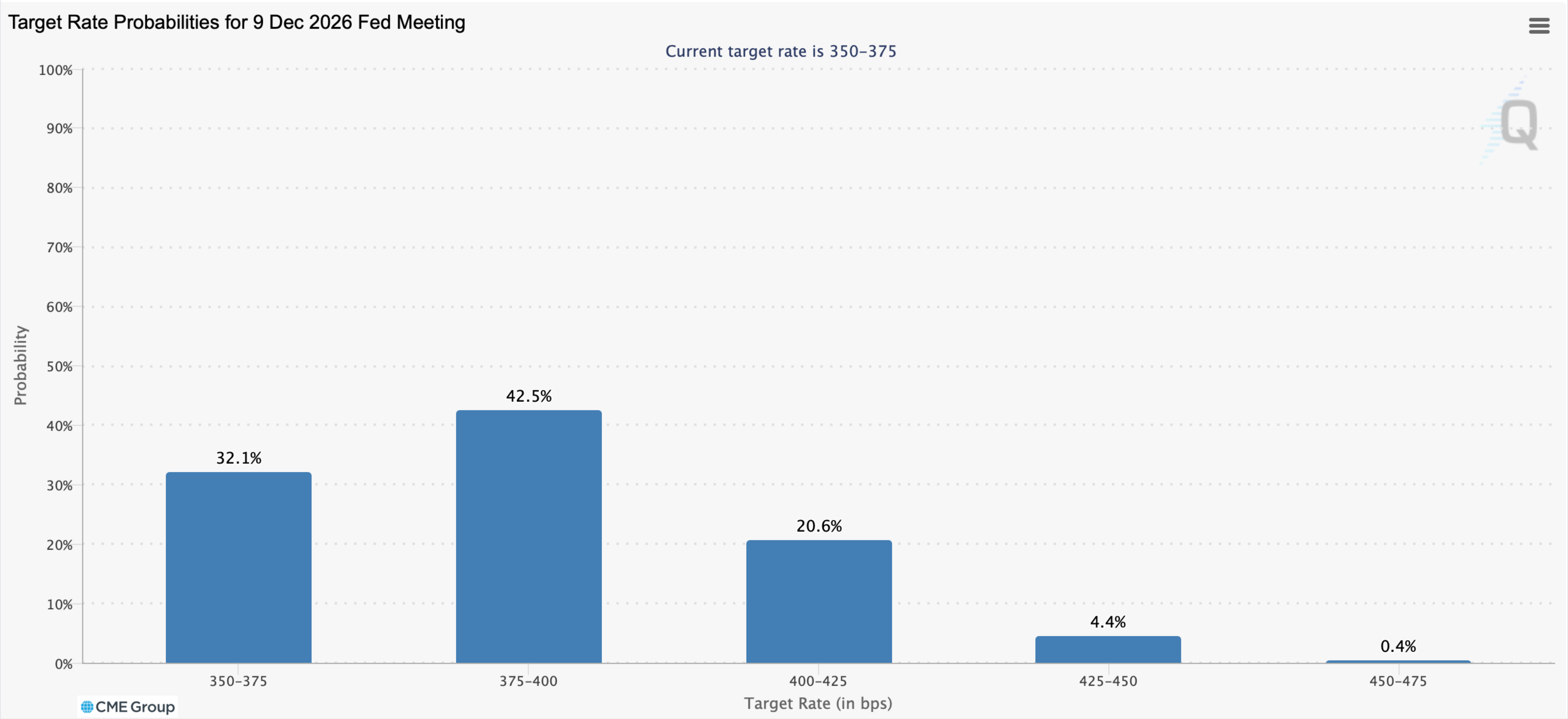
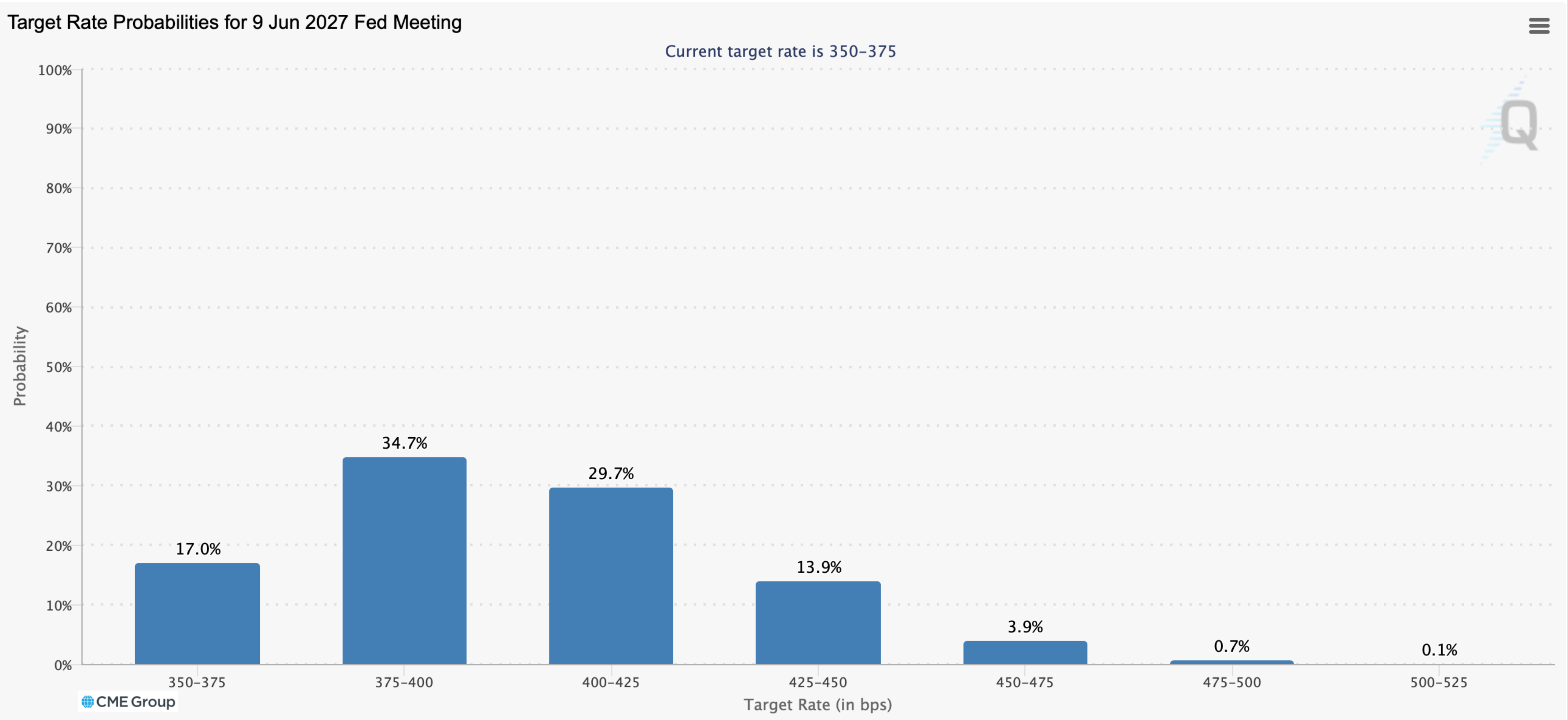
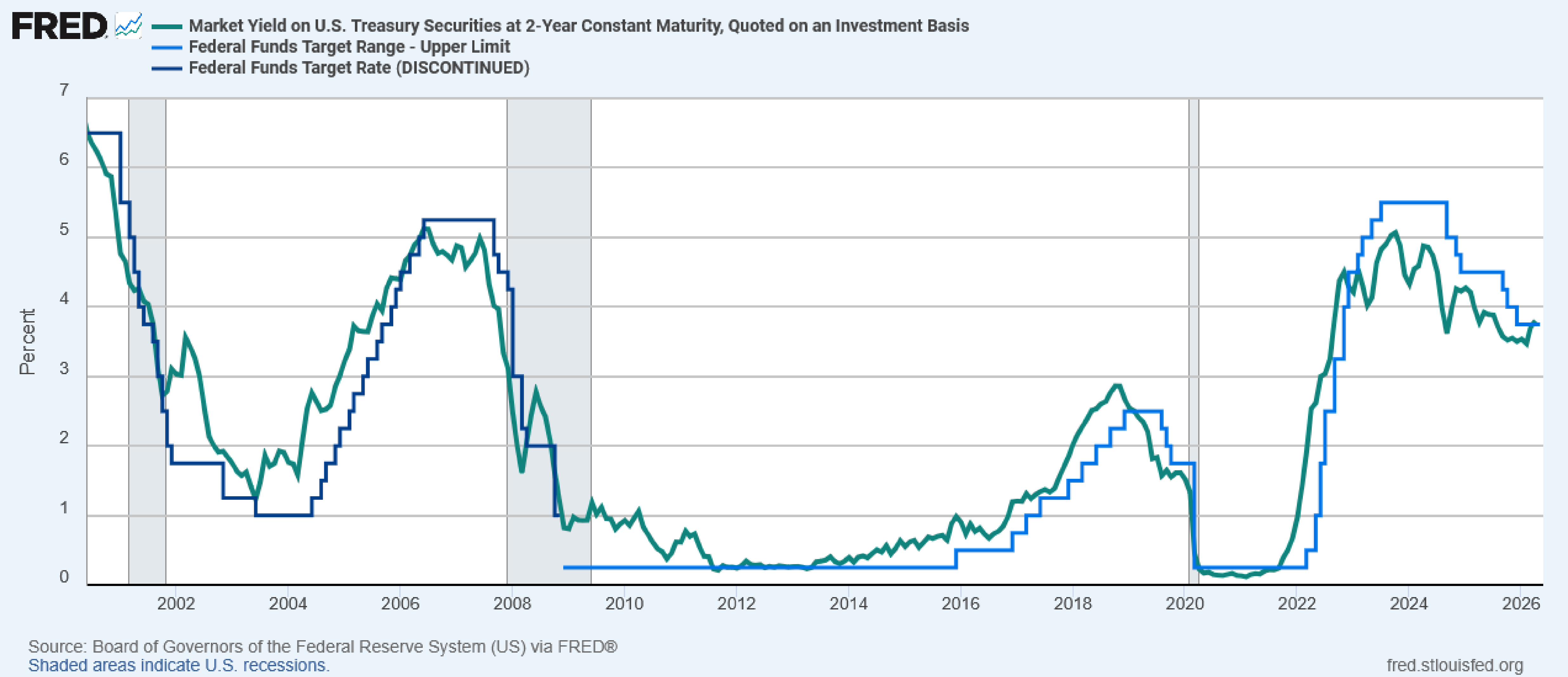
Interest Rates – Market Projections of Fed Funds



Interest Rates – Market Projections of Fed Funds



Interest Rates – Watch the 2-year UST



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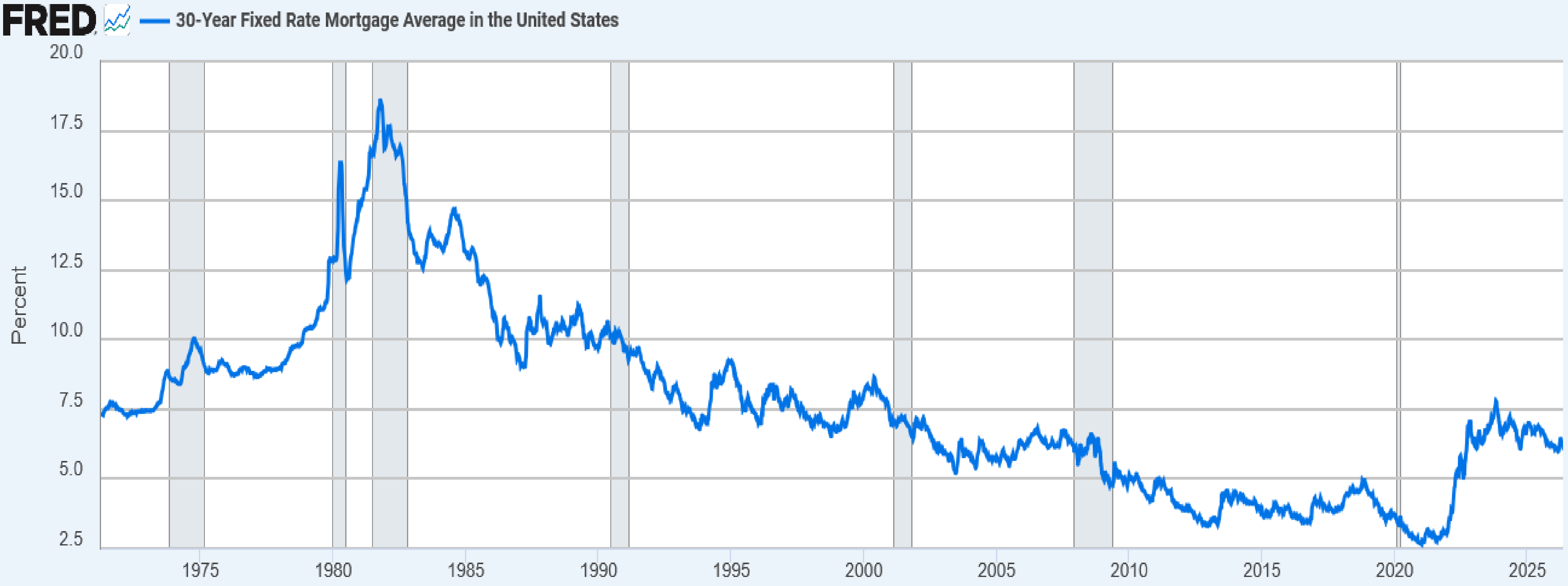
Interest Rates – 30-year Mortgage Rates



Source: Freddie Mac via FRED®
Shaded areas indicate U.S. recessions.
fred.stlouisfed.org

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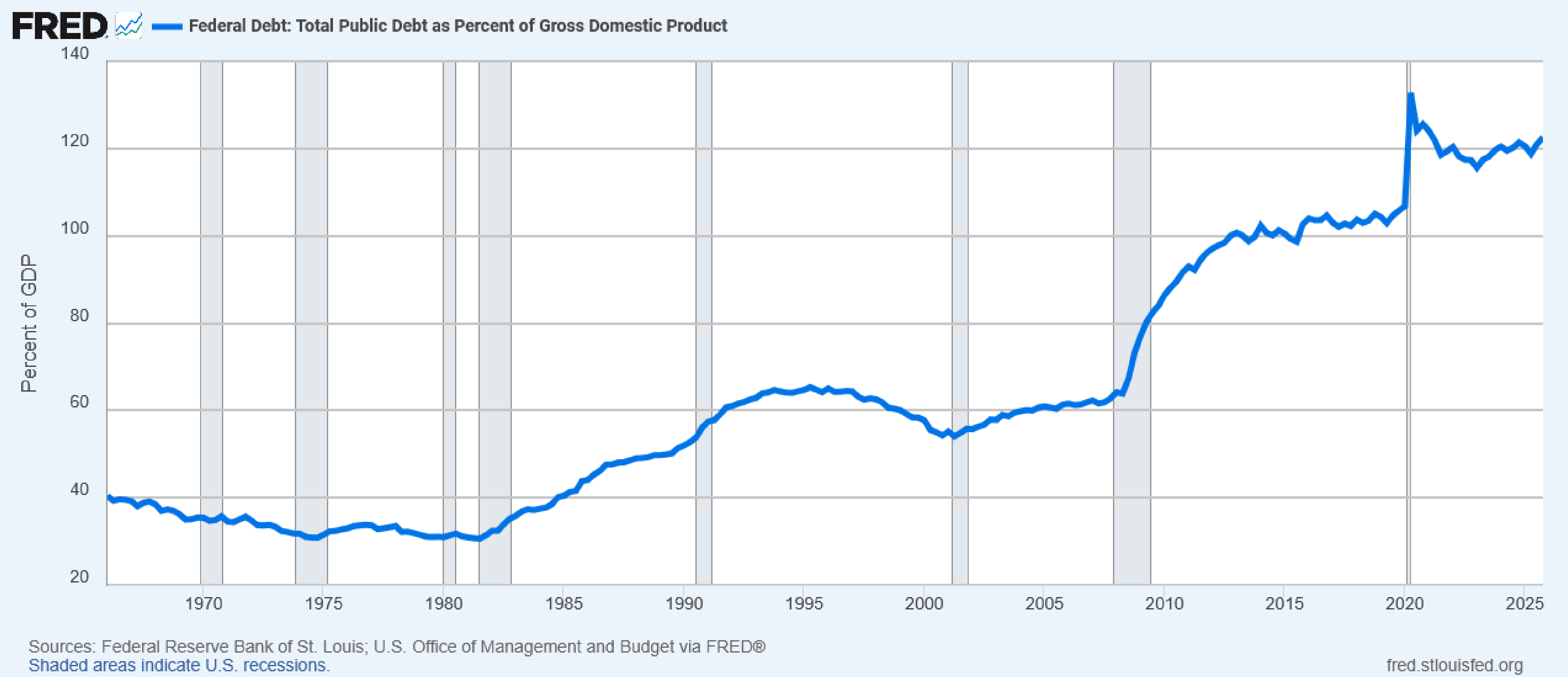
75 Years NCUMA

Interest Rates – Level of National Debt



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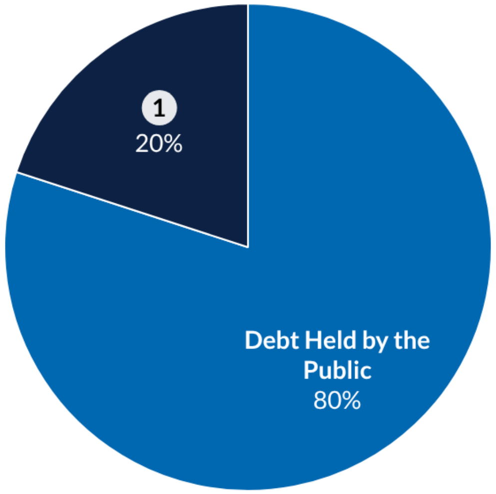
U.S. National Debt - Who Owns It?

Debt held by the public makes up 80 percent of gross debt

U.S. Debt Ownership Composition

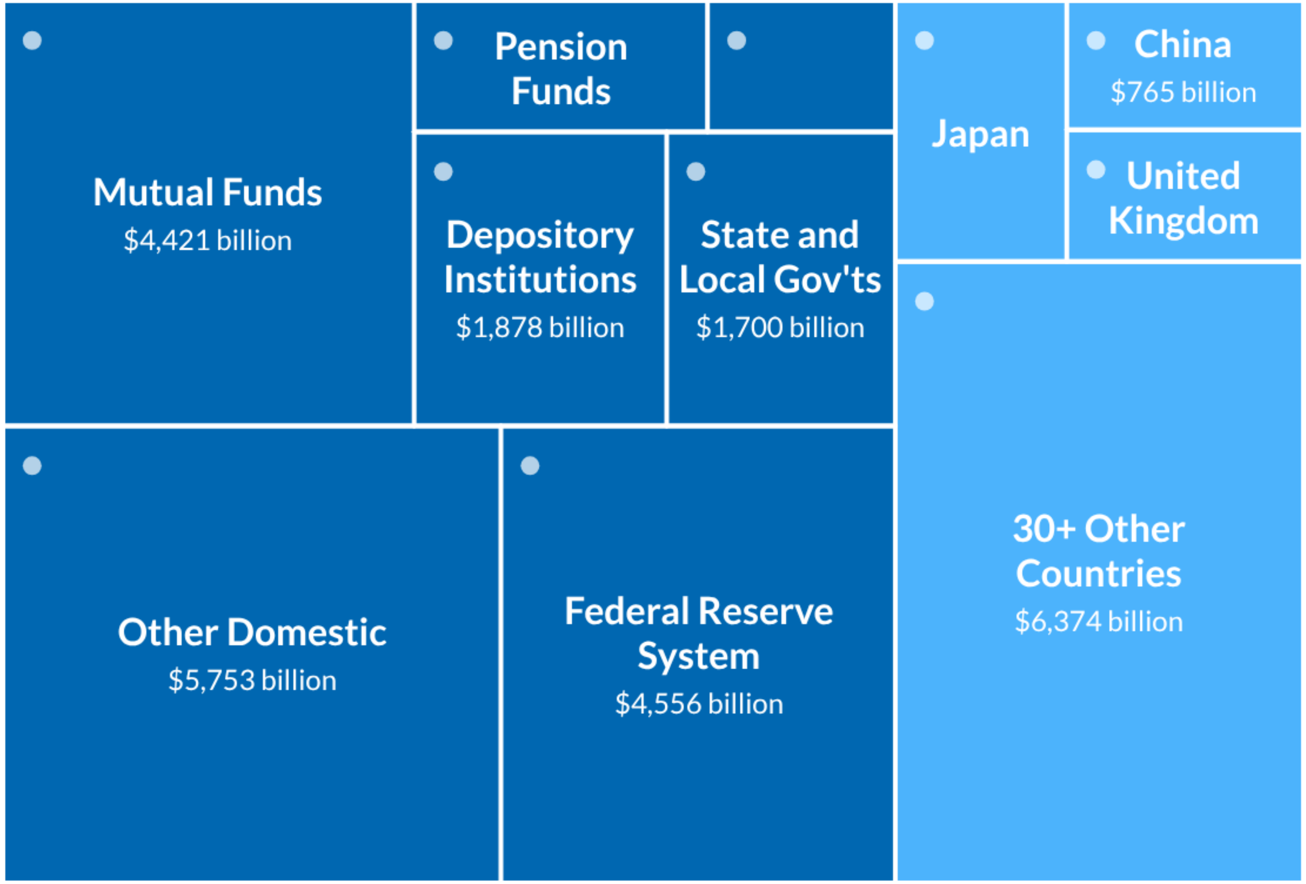


1 Intragovernmental Debt

Source: U.S. Department of the Treasury
Note: Chart reflects ownership at the end of June 2025.

PETER G. PETERSON FOUNDATION

Composition of Debt Held by Domestic and Foreign Public (Billions of $)



Source: U.S. Department of the Treasury
Note: Other Domestic includes owners of savings bonds. Data is through March 2025.

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QUESTIONS?

THANK YOU!

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